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**National Reform Programme 2019**  
**The Netherlands**

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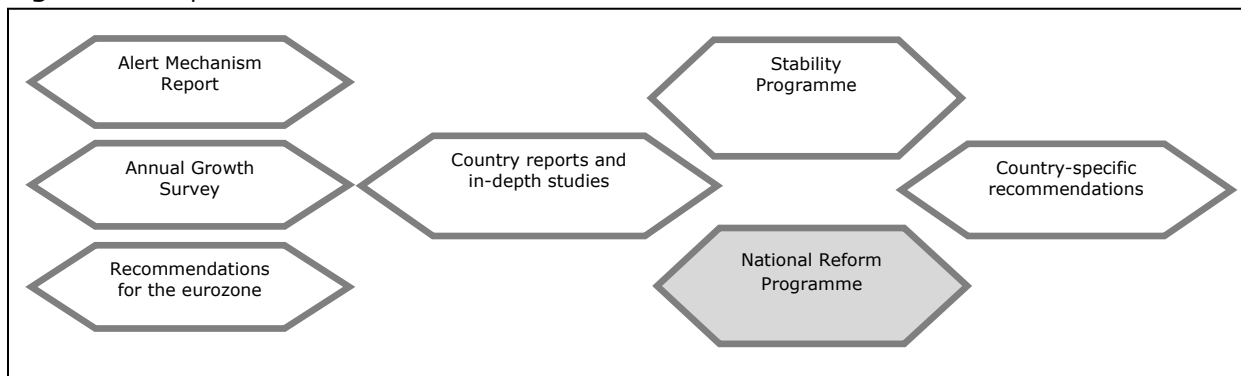
## 1. Introduction

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### 1.1. European Semester

The European Semester is an annual cycle of economic and fiscal policy coordination in the European Union, which starts in the autumn with the publication of the "Alert Mechanism Report" and the "Annual Growth Survey" by the European Commission. Since the 2015–2016 European Semester, the European Commission has also issued its recommendations for the eurozone at the start of the European Semester. This may enable national policy measures to respond better to the challenges facing the entire eurozone. Following research in and contact with the Member States, the European Commission's country reports on the state of the economy and progress on country-specific recommendations from the previous Semester and the wider Europe 2020 strategy targets will be released in February/March. The country report also contains an in-depth study for Member States, with the Alert Mechanism Report serving as a basis for further analysis of potential macroeconomic imbalances. Following on from this, by means of the Stability or Convergence Programme and the National Reform Programme (NRP) in spring, Member States report on the budget, the state of the economy and the economic reforms, again in the light of previous recommendations and the Europe 2020 strategy targets. Together with the country reports and bilateral contracts, these programmes serve as a basis for the new country-specific recommendations that the European Commission will propose in May and that will be adopted by the Council of the European Union in June, with or without amendments.

**Figure 1.** European Semester



As in previous years, the focus of this NRP lies on how the 2018 country-specific recommendations for the Netherlands have been and are being implemented, as well as on progress towards national goals in the context of the Europe 2020 strategy. The NRP also includes a response to the Commission's findings and an assessment of the progress that has been achieved, as described in the Country Report The Netherlands 2019.<sup>1</sup> In conclusion, the NRP briefly looks at the relationship between progress on the country-specific recommendations, the use of the cohesion funds and the recommendations for the eurozone as a whole.

### 1.2. Structure of the document

The NRP has been prepared in accordance with the guidelines issued by the European Commission (hereinafter referred to as 'the Commission'). Chapter 2 outlines the macroeconomic context. Chapter 3 describes the ways in which the government has implemented the 2018 country-specific recommendations for the Netherlands. It also examines the relationship between implementation of the country-specific recommendations and the recommendations for the eurozone as a whole and the investment strategy in the framework of the cohesion policy. Chapter 4 describes the progress the Netherlands has made with regard to the Europe 2020 strategy targets. Chapter 5 specifically

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<sup>1</sup> European Commission, *Country Report The Netherlands 2019*, 27 February 2019

describes how the use of European funds in the Netherlands contributes to achieving the Europe 2020 targets. Chapter 6 explains how the House of Representatives and the Senate, the social partners and the local and regional authorities were involved in establishing the NRP.

In addition to this NRP, the Netherlands will also submit the Stability Programme (SP) to the Commission. The content of the two documents overlaps to a certain extent, for example in the area of macroeconomic forecasts. The SP reports primarily on fiscal developments and fiscal policy, while the NRP focuses on the package of structural policy measures. These documents refer to each other where relevant.

### **1.3. Country Report The Netherlands 2019**

In February 2019, the Commission published the "Country Report The Netherlands 2019" within the framework of the European Semester. This document contains an in-depth review of potential macroeconomic imbalances in the Dutch economy, an analysis of other structural economic developments and the Commission's assessment of the progress made on implementing the country-specific recommendations from last Semester (2018).

The country report covers a wide range of topics. Of particular importance is the Commission's finding that there are two imbalances in the Netherlands. The threat posed by the imbalances was rated in the lowest category on the scale (not excessive). This means that the Commission will take no further sanctions measures, but will continue to closely monitor developments.

Similar to previous years, the Commission notes that there is a high level of private debt in the Netherlands. The debt can mainly be accounted for by households as a result of the institutional structure of the housing market. The Commission considers the sensitivity of households to shocks due to the high level of mortgage debt combined with high compulsory pension savings problematic. In this regard, it draws the same conclusion as in previous years. Although household debt as a percentage of GDP is now gradually receding, it is still twice as high as the eurozone average. The Commission finds that important housing market reforms have been implemented and announced to reduce the incentive to incur debt, but that distortions continue to exist. According to the Commission, the subsidy for debt-financed homeownership remains substantial despite the reduction of mortgage interest deductibility. Initiatives have also been launched to improve the functioning of the private rental market, but the effects are not yet visible.

Besides the high household debt levels, the Commission also notes imbalances in the Netherlands' current account surplus. The surplus is partially of a structural nature and is mainly attributable to the high level of savings by non-financial corporations. The Commission believes that the high level of corporate savings is driven by relatively high profits and property income, combined with low investments. The large presence of multinationals, possibly through profit shifting and aggressive tax planning, may also have an upward effect on corporate savings.

Solid growth in domestic demand and rising wages in this phase of the business cycle, coupled with a fiscal stimulus, are expected to contribute to a gradual reduction of the surplus. However, due to structural factors, such as the presence of multinationals, the surplus will persist.

#### *Response*

The government understands the Commission's conclusion regarding the high household debt levels. It is taking various measures to reduce the incentive to incur debt. One such measure is that the government has decided to accelerate the reduction of the maximum rate of mortgage interest deductibility. To compensate homeowners for the accelerated reduction in mortgage interest deductibility, the tax that homeowners pay on the notional rental value of their homes will be lowered by 0.15 percentage points. The government's housing market policy is explained in greater detail in Chapter 3.1.2. The government also plans to reform the second pillar of the pension system. These plans are set out in further detail in Chapter 3.2.2.

The government acknowledges the Commission's analysis that the current account surplus is largely driven by structural features of the Dutch economy, including the presence of multinationals. These corporations have established operations in the Netherlands based on various factors, such as its favourable geographic location, excellent business climate with high-quality infrastructure and qualified staff and the competitiveness of the business sector. The government notes that efforts to limit the private debt burden make it difficult to reduce the current account surplus.

Moreover, the Dutch government does not pursue a policy specifically aimed at managing the current account balance. As a result of supporting domestic demand, the fiscal measures announced will put downward pressure on the current account surplus due to higher domestic consumption and import levels. Furthermore, the government sees the savings surplus as a corollary to the ageing population, with pensioners using their current savings for consumption in the future. The government welcomes the Commission's insights regarding the savings surplus of the Dutch business sector and the role of the Dutch pension system. These could contribute to the discussion on the balance between savings and investments in the Dutch economy.

## 2. Macroeconomic context

The Dutch economy grew by 2.7% in 2018. Although the growth rate was lower than in the preceding years, the economic softening is in line with expectations. The Dutch economy had been running at full steam, after all. Businesses were increasingly stretched to their limits. Capacity utilisation rates were high and businesses were faced with shortages of materials and qualified staff, which pushed up investment costs. Growth was also reflected in the jobs market, with 2018 recording the strongest growth in employment in a decade. The rate of unemployment levelled off at a low 3.8%. The job vacancy rate, a key labour shortage indicator, approximated the pre-crisis level.

The growth of the Dutch economy is set to level off in the years ahead. The most recent forecast in the Central Economic Plan indicates that the momentum will continue to weaken, with economic growth projected at 1.5% in both 2019 and 2020. The cooling down of the economy will mainly be reflected in exports, which will see a slower pace of growth in 2019 and 2020 than in the preceding years. Investments and consumption will similarly reflect a weaker development than in the preceding years. However, the level of domestic spending will remain unchanged, given that the lower growth in private spending will offset the increase in public consumption. Public consumption will grow by 2.4% and 2.3% in 2019 and 2020 respectively, which is twice as high as in the past few years.

Due to the tightness in the labour market and higher inflation, negotiated wages are set to rise faster to 2.7% in 2019. Moreover, the expected inflation for 2019 is lower than the expected rise in negotiated wages. If these expectations come true, real wages will rise. The rise in real wages combined with policy choices (such as the effect of the two-tier tax band and the increase in the general tax credit) will bring about a 1.6% increase in median static purchasing power in 2019.

The budget surplus will amount to 1.2% this year and 0.8% in 2020. The favourable cyclical conditions to date and the unused budgeted public expenditure account for an important portion of the surplus in 2018 and 2019. As a result of the surpluses and GDP growth, the EMU debt will decline further from 52.4% GDP in 2018 to 49.1% in 2019. The structural budget balance will be over 0.6% higher in 2019 and 2020 than the medium-term objective of -0.5% GDP.

The risks for the economic picture of the Netherlands are beginning to have their repercussions on the real economy. Rising protectionism will put a drag on global trade growth. In addition, the Chinese economy is slowing down. The main downside risk facing the Netherlands in the short term is Brexit.

**Table 1.** Provisional key figures for the Dutch economy 2018–2020  
(% change, unless stated otherwise)

	Central Economic Plan		
	2018	2019	2020
Gross domestic product (GDP, economic growth)	2.7*	1.5	1.5
Household consumption	2.5*	1.3	1.5
Public consumption	1.4*	2.4	2.3
Investments (including inventory)	4.3*	2.6	2.5
Exports of goods and services	2.7*	1.1	2.3
Inflation (HICP)	1.6	2.3	1.4
Negotiated wages market sector	2.0	2.7	2.3
Purchasing power, static, median all households (b)	0.3	1.6	1.3
Unemployed population (in thousands of people)	350	345	370
Unemployed population (% of working population)	3.8	3.8	4.0
EMU balance (% GDP)	1.4	1.2	0.8
EMU debt (% GDP) (year-end)	52.4	49.1	47.1
Relevant global trade volume of goods and services	2.8	1.8	2.5

\* According to the latest actual figures for 2018 as published by Statistics Netherlands.

### 3. Country-specific recommendations

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In July 2018, the Council of the European Union adopted two recommendations for the Netherlands based on a proposal from the Commission. These recommendations relate to the fiscal and structural policies (research and innovation, digitalisation and the right framework conditions for entrepreneurs), the housing market, the labour market, wage growth and the pension system, and identify major challenges and specific areas of concern for the Dutch economy. Each recommendation is explained in further detail in Sections 3.1 and 3.2. Section 3.3 explores the relationship between Dutch government policy and the recommendations for the eurozone as a whole. Section 3.4 discusses the European Commission's recommendations for investments in the Netherlands.

#### 3.1. First recommendation for the Netherlands

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##### 3.1.1. Council recommendation

The verbatim recommendation formulated by the Council is as follows:

While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation. Take measures to reduce the debt bias for households and the remaining distortions in the housing market, in particular by supporting the development of the private rental sector.

##### 3.1.2. New policy based on the recommendation

###### *Fiscal policy*

The government's plans entail reducing the tax burden on citizens and businesses and making additional investments in the public sector. On the income side, the government's measures will lead to a reduction in the tax and social insurance contributions of €6.5 billion during its term of office, which will largely benefit households, due to a lower tax burden on labour. In parallel, the VAT rate will be increased in order to finance part of this reduction. The corporation tax for businesses will be reduced with a view to maintaining the competitiveness of the Netherlands. This will largely be financed by broadening the corporation tax base. On the expenditure side, funds will be invested in education, science and innovation, among other things. The total additional expenditure in the coalition agreement will rise to €7.9 billion by 2021, including approximately €2.0 billion in additional expenditure on education and research.

According to the latest projection by the CPB Netherlands Bureau for Economic Policy Analysis, the Netherlands will have a structural EMU balance of 0.8% of GDP in 2018, and 0.6% of GDP in 2019. The projected structural balance therefore falls within the medium-term objective (MTO), which is -0.5% of GDP for the Netherlands. The CPB projects an actual EMU balance of 1.2% of GDP and an EMU debt of 49.1% of GDP for 2019. This means that the Netherlands complies with the preventive arm requirements for 2019.

In addition to fiscal policy, the coalition agreement sets out specific measures aimed at strengthening the Dutch economy and growth potential. This entails fostering innovation, accelerating digitalisation and creating the right framework conditions for entrepreneurs.

###### *Structural policy: research and innovation, digitalisation and creating the right framework conditions for entrepreneurs*

Public and private investments in research and innovation (R&I) are crucial for future economic growth. Therefore, from 2020, the government will structurally invest an additional €400 million in fundamental and applied research (€200 million each), plus two non-recurring amounts of €50 million in research infrastructure (in 2018 and 2019). In doing so, the government aims, among other things, to keep the target of spending 2.5% of GDP on research and development (R&D) in sight (2017: 1.99% of GDP). The investments announced are discussed in greater detail below and in Section 4.2.

**Table 2.** Funds made available by the national government for research and innovation

(in millions of euros, actual prices)	2016	2017	2018	2019	2020	2021	2022
Fundamental research (Universities + University Medical Centres, the Netherlands Organisation for Scientific Research (NWO)/the Royal Netherlands Academy of Arts and Sciences (KNAW)/the Netherlands Organisation for Health Research and Development (ZonMW))	3,706	3,803	3,959	4,026	3,980	4,026	4,037
Applied research (TO2 institutions)	424	409	429	437	456	455	455
Applied research (contributions to the RKI innovation network and higher professional education)	205	202	229	237	246	249	249
Ministerial expenditure on research and innovation (other)*	846	1,019	985	1,009	1,033	985	949
Tax incentives for innovation (the Research and Development (Promotion) Act (WBSO), the Innovation Box, MIA (Environmental Investment Rebate) and Vamil (Arbitrary depreciation of environmental investments))	2,585	2,768	2,674	2,852	2,852	2,852	2,852
<b>Total</b>	<b>7,765</b>	<b>8,201</b>	<b>8,277</b>	<b>8,561</b>	<b>8,568</b>	<b>8,568</b>	<b>8,543</b>

\* It is not yet known to what extent various expenditure boosts in the coalition agreement will be used for R&I.

Sources: Rathenau baseline trajectory TWIN2016–2022; Spring Memorandum 2018 (expenditure boosts, Ministry of Education, Culture and Science and Ministry of Economic Affairs and Climate Policy); Parliamentary Paper 33009, No 49 and No 63; Innovation Box estimate, Budget Memorandum 2019, Internet Annex 9.

Table 2 shows the trends in public expenditure on R&I (including tax incentives for businesses) for the period 2016–2021. Total public expenditure on R&I has increased since 2018 compared to 2017 on account of the expenditure boosts announced.

The government informed the House of Representatives of the allocation of the expenditure boosts earmarked for fundamental and applied research.<sup>234</sup> The additional investments in fundamental research will be routed through the Ministry of Education, Culture and Science and represent amounts of up to €250 million with effect from 2020. Of the additional investments in applied research, €50 million will also be routed through the above ministry. Furthermore, a non-recurring investment of two times €50 million will be made in the research infrastructure, in 2018 and in 2019 respectively. The allocation of funds is based on striking a balance between (1) thematic programming under the Dutch National Research Agenda focusing on innovative and socially relevant research and (2) strengthening the scientific basis and applied research. The allocation is as follows:

1. the broad Dutch National Research Agenda covering the entire public knowledge chain (gradually increasing to €130 million on a structural basis by 2020);
2. efforts aimed at strengthening the scientific basis (gradually increasing to €120 million on a structural basis by 2020, and two non-recurring amounts of €50 million), by means of:
  - a) the digital research infrastructure, with a focus on open science and open access (€20 million on a structural basis in 2020; the funds for the digital infrastructure will be allocated in 2018 (€20 million) and in 2019 (€20 million) from the non-recurring funds for research infrastructure);
  - b) scientific talent, including the Innovational Research Incentives Scheme (€5 million on a structural basis for women in Natural Sciences and researchers with a migration background);
  - c) scientific and technical research at universities, with a focus on experience with sectoral plans (€70 million on a structural basis);
  - d) applied research at universities of applied sciences (€25 million on a structural basis);

<sup>2</sup> Parliamentary Papers II, 2017–2018, 29 338, No 158, Parliamentary Papers II, 2018–2019, 29 338, No 186 and Parliamentary Papers II, 2017–2018, 33 009, No 49.

<sup>3</sup> <https://zoek.officielebekendmakingen.nl/kst-33009-49.html>

<sup>4</sup> [https://www.tweedekamer.nl/kamerstukken/brieven\\_regering/detail?id=2018Z04203&did=2018D18589](https://www.tweedekamer.nl/kamerstukken/brieven_regering/detail?id=2018Z04203&did=2018D18589)



- e) scientific research facilities (€30 million in 2018 and €30 million in 2019 on a non-recurring basis).

The additional investments in applied research that will be routed through the Ministry of Economic Affairs and Climate Policy represent amounts of up to €150 million. Following on from the coalition agreement, the government will focus on three structural expenditure boosts with effect from 2018:

1. an investment in major technology institutes that demonstrably meet market needs (€75 million);
2. strengthening public-private partnerships (€50 million). To that end, among other things, the PPP allowance was increased from 25% to 30% in 2018;
3. strengthening the SME sector in the innovation policy (€25 million), by expanding the Regional and Top Sector Incentive scheme for SMEs and innovation credits for the SME sector. In this connection, the government aims to support start-ups, continue the Technology Pact and strengthen the government's role as launching customer through the Small Business Innovation Research programme (SBIR).

In addition to the above investments in fundamental and applied research, and in research infrastructure, a number of other R&I policy measures have been announced in the coalition agreement 'Confidence in the Future'. They are as follows:

- The higher education funding system will be revised, with a specific focus on technical degree programmes.
- Start-ups and public-private partnerships with the SME sector will be encouraged.
- Special attention will be paid to the technical sciences and research groups that are faced with high costs.
- Open science and open access will become the norm in scientific research, making scientific knowledge more accessible to everyone, including the SME sector.<sup>5</sup>
- The top sector policy, aimed at promoting collaboration between the business community, knowledge institutes and the government, will place a stronger focus on the economic opportunities arising from a number of major social themes.
- The Netherlands Organisation for Scientific Research (NWO) has prioritised fundamental research in the Dutch National Research Agenda.

In line with the announcement in the coalition agreement to sharpen the focus of the Top Sector strategy, the House of Representatives was informed of the "Mission-Oriented Innovation Policy" in summer 2018, which builds on public-private partnerships in the Top Sector strategy.<sup>6</sup> The Mission-Oriented Innovation Policy has sharpened the focus on the economic opportunities arising from social challenges and key technologies. Under the mission-oriented approach, the actors concerned will join forces to work on themes of major importance for society. The mission-oriented approach will explicitly look at which key technologies play a role or might be relevant in seeking solutions to social challenges and strengthening earning capacity. Businesses and knowledge institutes will be mobilised to invest in these technologies. The mission-oriented approach will also make it easier to draw links between the various innovation agendas – at the regional, national, European and international levels. Moreover, with the aim of increasing knowledge dissemination and utilisation, a greater focus has been placed on market creation and valorisation and on the involvement of start-ups in the revised Top Sector strategy.

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<sup>5</sup> This may be deviated from in exceptional cases (see Article 12b of the new Netherlands Code of Conduct for Research Integrity). See also the Council Conclusions on the Transition towards an Open Science System adopted on 27 May 2016: <http://data.consilium.europa.eu/doc/document/ST-9526-2016-INIT/en/pdf>

<sup>6</sup> Parliamentary Paper 33 009, No 63

### *Digitalisation*

In June, the government presented the Dutch Digitalisation Strategy for 2018–2021 aimed at accelerating digitalisation.<sup>7</sup> The new Smart Industry Implementation Agenda for 2018–2021 was also presented in 2018. The agenda specifies the actions that must be undertaken to keep the Netherlands at the forefront of the digitalisation of industry. In addition, the Digital Connectivity Action Plan was presented in 2018. The plan sets out how the government aims to achieve the ambition that all Dutch people will have access to fast fixed-connection broadband internet by 2023.<sup>8</sup>

### *The right framework conditions for entrepreneurs*

Invest-NL will be launched in 2019, with the aim of offering entrepreneurs financing for high-risk societal transition projects and for the growth of start-ups and scale-ups into larger enterprises. To that end, €2.5 billion in investment capital will be made available, for both national and international activities.

Various initiatives have been launched to enable SMEs to benefit from the growing, but fast-changing economy. This includes the SME action plan, a revised programme for the Technology Pact and the *MKB!dee* (SME!dea) project. The government will make €200 million available for the SME action plan<sup>9</sup> until year-end 2021. The commitments for 2018–2020 have been determined in the revised programme for the Technology Pact.<sup>10</sup> This includes concrete agreements between the business community, the education sector and the government to reduce the shortage of technicians. The *MKB!dee* project challenges the SME sector to generate ideas for getting more investments in lifelong learning off the ground. In the present government's term of office, a total of €950 million has been reserved for regional projects, such as strengthening the European Space Research and Technology Centre (ESTEC) and Brainport Eindhoven.

### *Housing market*

Measures will be implemented to reduce the incentives for households to incur debt and the remaining distortions in the housing market. This includes focusing on the development of the private rental sector. At present, house prices in the Netherlands are still rising. This has created undesirable situations in some parts of the country, with people having difficulty in finding a suitable and affordable home. It is important to the government to ensure that the Dutch housing market is accessible, affordable and stable.

To safeguard financial stability, the government has implemented measures to reduce the incentive for households to take on high mortgage debts. The maximum rate of mortgage interest deductibility was lowered by 0.5 percentage points with effect from 1 January 2019. From 2020 onwards, 3 percentage points per annum will be deducted in four steps. As a result, the final target, a maximum deductible rate of around 37%, will be achieved by 2023. The deduction for no or a low mortgage debt (also known as the Hillen scheme) will be phased out in 30 equal annual steps with effect from 2019. The Hillen scheme was introduced as an incentive for people to pay off their mortgage in full. The repayment requirement introduced in 2013 has rendered this incentive redundant.

In recent years, the maximum loan-to-value ratio of mortgage loans has been gradually reduced to 100% of the residential property value. This will be maintained by the government in order not to limit accessibility any further. The increasing tightness in the Dutch housing market is making it difficult for many households to find a suitable home. In order to tackle these bottlenecks, it is essential to increase the housing supply. Residential construction, with a specific focus on developing the mid-priced rental sector, is a high priority for the government.

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<sup>7</sup> Annex to Parliamentary Paper 26 643, No 541.

<sup>8</sup> Annex to Parliamentary Paper 26 643, No 547.

<sup>9</sup> Annex 1 to Parliamentary Paper 32 637, No 316.

<sup>10</sup> Parliamentary Paper 32 637, No 320

In May 2018, market parties, residents' representatives, the umbrella organisation of the Dutch housing associations, the water authorities and the central government signed the National Housing Agenda. The target set in the agenda is to build 75,000 homes per year until 2025. The regions where most of the homes will be built are regions with the most complex building task. The Minister of the Interior and Kingdom Relations is holding talks with regions aimed at reaching agreements with these regions. These regions are the Amsterdam and Rotterdam-The Hague metropolitan regions, the Utrecht and Eindhoven regions and the city of Groningen. The potential acceleration of development locations will be examined for the short term, and safeguarding the availability of sufficient planning capacity for the longer term. In early 2019, the first housing deal was concluded in Groningen, in which it has also been agreed to build 20,000 homes until 2030, 8,000 of which before 2023. The second deal comprised Stedelijk Gebied Eindhoven (Eindhoven Urban Area Cooperation), with the aim to build 27,000 homes between 2019 and 2023.

The housing supply is scarce, particularly in urban areas, and it is vital to accelerate the construction of new homes. Brownfields (former or underutilised industrial and factory sites) are usually centrally located sites, relatively large in size, which are suitable for facilitating a considerable amount of the inner-city housing need. However, the redevelopment of these areas is not always being realised by the market. To facilitate these redevelopment projects, in early 2019, the Minister of the Interior and Kingdom Relations launched the Transformation Facility, a financing facility for inner-city transformation. An amount of €38 million has been made available for this purpose, which will be supplemented with co-financing from other parties. The Transformation Facility offers loans to facilitate pre-investments in transformation locations.

The mid-priced rental segment is an important segment of the housing market and offers the flexibility desired by many people. The government considers it important to add new homes in the mid-priced rental segment to the housing stock and also to ensure that they remain available in that segment. The bill proposing "Mid-priced rental segment measures" was submitted to the House of Representatives on 19 September 2018. The bill amends the market test for housing associations, which will make it easier for them to build rental homes in the non-subsidised housing sector. These construction activities fall under their non-SGEI task (without state aid). The use of a housing regulation for the allocation of mid-priced rental homes to certain target groups in the event of scarcity will also be clarified in the Housing Act (*Huisvestingswet*).

As the issues vary considerably at a local level, a ready-made solution is not always available. Local instruments can be used to prevent excessive rents in certain regions, as also proposed by the Collaborative Platform for the mid-priced rental segment. The "emergency measure for mid-priced rentals" (*noodknop middenhuur*) may be used for this purpose. The Minister of the Interior and Kingdom Relations has considered various options for this instrument. The basic principles are that the "emergency measure" is of a temporary nature, that it may only be used by municipalities with a scarcity in the mid-priced rental segment and that sufficient earning opportunities remain available to any parties investing with a long-term perspective so that they can continue to build mid-priced rental homes. The option selected from this exploratory study is to enable municipalities to maximise the initial rent in the non-subsidised housing sector locally based on a percentage of the value under the Valuation of Immovable Property Act (*Wet waardering onroerende zaken, WOZ*). This option will always be a far-reaching measure in the non-subsidised housing market even when legal frameworks have been established. It is therefore crucial that due care and attention be paid to elaborating this option. To that end, a study will be conducted to analyse the current rental prices and rental price trends over the past few years in the non-subsidised housing sector, as well as a study of the economic effects and the potential design of such an "emergency measure". The municipalities and market parties will be closely involved in this process.

### **3.1.3. Country Report The Netherlands 2019**

#### *Summary*

The Commission notes in the country report that the Netherlands has made progress on the first country-specific recommendation. The Commission states in the country report that public and private investments in R&D and in innovation have increased substantially. The recently implemented

structural reforms have led to strong job growth. The lower tax burden on labour and higher investments in R&D support potential growth. The expansive fiscal policy will also temporarily boost economic growth.

In addition, it has been emphasised that R&D investments are crucial for future productivity growth and for achieving the climate targets. In view of the investments this government is making in fundamental and applied research, the Commission states that substantial progress has been made in addressing the 2018 country-specific recommendation – while respecting the medium-term objective – to use the fiscal and structural policies to raise public and private investment in research, development and innovation.

The Commission points out that, at 1.99% of GDP, the R&D investments still lag far behind the 2.5% target, which the Netherlands has committed to at EU level. At 1.17% of GDP, private investment in R&D primarily lags behind the 1.3% EU average. The Commission also points out that the services sector comprises a large share of the Dutch sectoral structure, which explains the low R&D expenditure. A sectoral analysis of business expenditure on R&D shows that the Netherlands is the European leader in sectors such as agriculture and transport, but trails behind in sectors such as ICT and manufacturing. The Commission recommends that the Netherlands continue to stimulate private investment in R&D. The Mission-Oriented Innovation Policy can play a role here.

A further recommendation has been made to examine whether the ratio between the generic (WBSO, Innovation Box) and the specific instruments are currently optimal in the innovation policy, and whether the government has sufficient steering capacity. In this context, the Commission states that the effectiveness of the Innovation Box as a tool to boost R&D appears to be limited. The Commission holds a positive view of the use of regional innovation strategies for smart specialisation, which the Commission believes can strengthen the collaboration between research institutes and businesses.

The Commission states that some progress has been made regarding the distortions in the housing market. One measure is the decision to accelerate the reduction of the maximum rate of mortgage interest deductibility from 2020. Nevertheless, this fiscal subsidy will not be completely phased out. The Commission emphasises that incentives consequently remain for households to incur debt and that this affects the decision to rent or buy.

The Commission also notes that the number of underwater mortgages has declined substantially. The average loan-to-value ratio for new mortgages for the under-35 age group has decreased. This may relate to the stricter loan-to-value and loan-to-income ratios for mortgages. These developments reduce the risk of residual debt when people sell their homes.

The Commission also states that the government recognises the importance of a well-functioning private rental market. The private sector is often unaffordable for middle-income earners. To increase the supply of mid-priced rental homes, the government submitted the bill proposing "Mid-price rental segment measures" last year. This new Act should also make it easier for housing associations to build in the mid-priced rental segment. Municipalities play an equally important role in increasing the supply of mid-priced rentals. The number of municipalities pursuing an active policy aimed at increasing the mid-priced rental segment has risen in the past two years.

In its broader analysis, the Commission notes that the Dutch housing market has recovered. There are substantial regional differences, with house prices in the major cities rising at a faster pace. These differences can be explained by the attractiveness of urban areas and the tighter housing supply in those areas. The supply of homes for sale has dropped sharply in the recent period. The major cities, where supply is tightest, saw the largest decline. Building new homes may ease the current pressure on the housing market. The Commission refers to the intention expressed by the government to build 75,000 homes annually to tackle the housing shortage.

The Commission points out that the current pension and housing systems may lead to a sub-optimal pattern of saving and consumption during a person's lifetime. There is an incentive for households to

take on a high mortgage debt. The introduction of mandatory mortgage repayment in 2013 to qualify for interest deductibility improves the incentive for households to repay their mortgage. However, higher monthly mortgage repayments and high pension contributions both require substantial savings, which puts consumption under pressure and may lead to welfare losses.

#### *Response*

In the Stability Programme, the government explains in greater detail how the Netherlands implements the European fiscal objectives.

The government shares the Commission's view that investments in innovation are crucial for both strengthening productivity growth and achieving the climate and energy targets. Other social challenges cannot be solved without the help of innovations either. Public investments in R&I will therefore be increased by this government; this includes making available additional budget for research facilities. Moreover, the efforts undertaken by the top sectors under the Mission-Oriented Innovation Policy will focus more on social themes and key technologies. The Netherlands will continue to invest in scientific excellence and technical education.

The Innovation Box is an important component of the Dutch policy on the business climate and innovation. On the one hand, the Innovation Box improves the business climate for innovative enterprises and consequently helps attract and retain quality employment. On the other hand, the Innovation Box fosters R&D activities in the Netherlands that ultimately contribute to more innovation. The most recent evaluation of the Innovation Box resulted in a positive assessment by an external research agency.<sup>11</sup>

The government shares the Commission's view that smart specialisation strategies are a useful tool for focusing regional investments on regional strengths. It is equally important when updating these strategies to seek links with the national innovation policy and to unlock synergies, where possible, between the four regional smart specialisation strategies.

The government concurs with the Commission's argument that building more homes can help ease the current pressure on the housing market. The regions with the highest demand for homes are usually regions with the most complex residential construction challenges. Against this background, the Minister of the Interior and Kingdom Relations is working with the five large urban regions on "housing deals". Housing deals have already been concluded in two of these regions, which are the city of Groningen and the Eindhoven region. The housing deals include agreements not only on the quantity of homes to be built, but also on adapting the type of homes and living environments to demand, and on the affordability of existing homes.

Early this year, to accelerate residential construction at complex inner-city locations in regions with a tight housing market, the Minister of the Interior and Kingdom Relations launched a Transformation Facility, which is an inner-city transformation financing facility. The Transformation Facility offers loans to facilitate pre-investments in transformation locations. The government shares the Commission's view that a well-functioning mid-priced rental segment is of vital importance. The bill proposing "Mid-priced rental segment measures" aims to increase this segment.

The options for a potential "emergency measure" for the mid-priced rental segment have additionally been explored. This is a temporary instrument that municipalities may use to prevent excessive rental prices in the non-subsidised housing sector. The starting point is that decent investors will still be able to charge a decent rent. All the same, even under stringent conditions, this will always be a far-reaching proposal. It is therefore crucial that due care and attention be paid to elaborating this option. Against this background, two studies have been initiated to gain a better understanding of the effects

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<sup>11</sup> *Evaluation of the Innovation Box 2010–2012*. Dialogic, 2015

of a potential "emergency measure". More clarity on the "emergency measure" will be provided before summer.

The government understands the Commission's argument that higher monthly mortgage repayments may lead people to spend less on consumption. However, the government regards the repayment requirement to qualify for mortgage interest deductibility as an effective measure for reducing the growth of mortgage debt and making households less vulnerable to economic shocks. In addition, accelerating the reduction of the maximum rate of mortgage interest deductibility will make a high mortgage debt less attractive.

## **3.2. Second recommendation for the Netherlands**

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### **3.2.1. Council recommendation**

The verbatim recommendation of the Council states:

Reduce the incentives to use temporary contracts and self-employed persons without employees, while promoting adequate social protection for the self-employed, and tackle bogus self-employment. Create conditions to promote higher wage growth, respecting the role of the social partners. Ensure that the second pillar of the pension system is more transparent, fairer on an intergenerational basis and more resilient to shocks.

### **3.2.2. New policy based on the recommendation**

The Dutch economy is in good shape and developments on the labour market are positive. Labour force participation has reached a record level and unemployment is low. Nevertheless, the labour market is tight for both employers and workers. Under the current rules, permanent contracts offer employees a high level of protection, whereas temporary contracts generally offer a comparatively low level of protection, also in terms of dismissal law. Employers say that this makes them reluctant to offer employees a permanent contract; they are deterred by the build-up of costs and risks. As a result, certain groups of workers are more frequently offered a temporary contract, which offers them less security than a permanent contract would.

#### *Balanced Labour Market Act (Wet Arbeidsmarkt in balans)*

The government aims to address this problem by narrowing the differences between flexible and permanent work. One single measure will not resolve this problem. The Balanced Labour Market Act therefore provides for a package of different measures designed to jointly eliminate bottlenecks. The government anticipates that this will reduce the reluctance of employers to offer employees a permanent contract. At the same time, flexible working will remain an option if the work so demands. The most important measures in the Act are as follows:

- Dismissal will also be possible if there is an aggregation of circumstances, referred to as the "cumulative ground". Currently, employers must comply with all the rules regarding one of the eight grounds for dismissal. This new ninth ground allows the court to combine circumstances. The employee is eligible for an additional amount of up to 50% of the transition payment (on top of the regular transition payment) if the cumulative ground is used for dismissal.
- Employees are entitled to a transition payment from the start of their employment contract (severance pay), including during the trial period. This currently applies only after two years of employment.
- The accrual of the transition payment will be reduced for long-term employment. This will become a third monthly salary for each year of service for all employees.
- The unemployment insurance (WW) contribution will be more advantageous for employers if they offer an employee a permanent job instead of a temporary contract. The amount of the unemployment insurance contribution currently depends on the sector in which a business operates.
- A transition payment compensation scheme will be introduced for small businesses if they are forced to discontinue their business due to retirement or illness.
- The succession of temporary contracts, referred to as the "chain provision", will be widened. At present, three successive temporary contracts may be entered into within a two-year period. This will become three years.
- It will also be possible to shorten the interval between a chain of temporary contracts per collective labour agreement, from six to three months, in the case of recurring temporary work that may be performed for a maximum period of nine months per year.
- Furthermore, an exception to the provisions on succession of fixed-term employment contracts will be introduced in primary education for substitute teachers who replace staff on sick leave.
- Employees who work on a payroll basis will receive at least the same terms of employment as the employees employed by the employer, as well as an adequate pension scheme.

- Measures will be taken to prevent the mandatory permanent availability of on-call workers. An employee must be called up at least four days in advance by the employer. On-call employees retain the right to pay if the work is cancelled less than four days in advance. The period of four days may be shortened to one day under the collective labour agreement.

The bill was adopted by the House of Representatives on 5 February 2019. The measures are expected to take effect on 1 January 2020.

#### *Self-employed persons without employees*

Self-employed persons without employees (ZZPers) occupy an important position in the labour market. Many contractors have deliberately chosen to work as self-employed professionals and they thus make an important contribution to society and the economy. Many self-employed persons and their clients find the current regulations obscure and unnecessarily complicated. The government therefore intends to provide certainty to self-employed persons and their clients with regard to the fact that no employment relationship exists.

However, there is another side to the strong growth in the number of self-employed persons. A growing group of bogus self-employed persons and vulnerable self-employed persons has emerged, which gives the government cause for concern. Consequently, the protection of vulnerable self-employed persons, and the prevention of bogus self-employment and the use of terms of employment to gain an edge on competition are key priorities for the government.

The government is working on developing legislation in the short term to supersede the Assessment of Employment Relationships (Deregulation) Act (*Wet deregulerend beoordeling arbeidsrelaties, Wet DBA*). The letter of 26 November 2018 containing the progress report<sup>12</sup> states the action undertaken for each measure announced, the current status and the next steps the government plans to take. In summary, the four measures are as follows:

- *client statement*: using a web module, clients can obtain a client statement (*opdrachtgeversverklaring*) if the answers to the questions show that no formal employment relationship exists. This should provide clarity on the qualification of the employment relationship. The development of the web module is on schedule and should be completed by the end of 2019;
- *clarification of legal subordination*: clarification will be provided on when a relationship of subordination is deemed to exist. This will provide guidance to clients to enable them to determine whether an employment relationship should apply. The legal subordination criterion was clarified on 1 January 2019;
- *low pay rate implies employment contract*: the intention is to preclude the possibility of hiring self-employed persons for the long-term at a low pay rate in the future. The aim is to prevent bogus self-employment and the use of terms of employment to gain an edge on competition;
- *opt-out*: an opt-out from payroll taxes and employee insurance contributions will be introduced for the self-employed at the upper end of the labour market. This will provide additional security to contractors at the upper end of the labour market and their clients.

Further aspects of the employment contract associated with a low pay rate will be fleshed out in the period ahead. This includes considering the criteria for delineating the scope of the measure. In view of the potential incompatibility of the measure with EU law, parallel alternatives (sectoral and generic) will be formulated, which are anticipated to be compatible with EU law. The government will also consider formulating a minimum rate. This means that self-employed persons may no longer be paid an hourly rate ranging between €15 and €18. This variant ties in with the coalition agreement objectives to protect vulnerable self-employed persons and to prevent the use of terms of employment to gain an edge on competition, because it will no longer be possible to hire self-employed persons at a low pay rate.

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<sup>12</sup> Parliamentary Paper 31 311, No 212



The measures aimed at protecting self-employed persons at the lower end of the labour market will be further elaborated and drafted into legislative form (together with the opt-out measure). The aim is to submit this legislation for internet consultation in the first half of 2019. The entry into force date is scheduled for 1 January 2021.

In addition to this legislative procedure, the government is taking other steps. In conjunction with insurers, it is undertaking efforts to increase the percentage of insured self-employed persons by encouraging them to make a conscious choice. A wide range of insurance schemes are available to self-employed persons, but not all of them know how to navigate their way to these schemes. To increase the percentage of insured self-employed persons, the government will therefore invest in the prevention of procrastination behaviour and the underestimation of risk by the self-employed. It will launch the "Facilitation of decision-making on insurance schemes programme for the self-employed" (*Programma Bevorderen keuzegedrag*) for this purpose.<sup>13</sup>

#### *Committee on the Regulation of Work (Commissie Regulering van werk)*

The Committee on the Regulation of Work was established to consider the future of the labour market. It is researching what work will look like in the future and the appropriate laws and regulations the government would need to implement with a view to the future. The committee is examining whether amendments are required, and if so, in which areas. It is looking not only at the legal rules relating to employment contracts, but also at any changes in areas such as permanent and temporary work, incapacity for work, taxes and self-employment. The committee will issue its recommendations by 1 November 2019 at the latest. The regulation establishing the committee focuses on the broader issues that are being addressed.<sup>14</sup>

#### *Conditions for higher real wage growth*

In the Netherlands, wages are determined in consultation with the social partners, due to which the direct influence of policy on wage growth is limited. The government has put this topic on the agenda by pointing out the room available for wage increases to employers. As a public-sector employer, the government has also acted on this and implemented wage increases into the Collective Labour Agreement for the Central Government concluded in summer 2018.

The CPB Netherlands Bureau for Economic Policy Analysis has stated that labour productivity will need to rise faster to enable stronger wage growth in the future.<sup>15</sup> Government policy indirectly contributes to labour productivity growth in various ways, such as fostering R&D and investing in human capital, particularly in people at a large distance from the labour market. Through this pathway, the government aims to create scope for further real wage growth.

#### *Pension reform*

Although the Dutch pension system ranks among the best in the world, it should be adapted to the changing labour market and society to ensure future resilience. The current system has given rise to an intergenerational discussion on the distribution of the available pension capital and is inadequately equipped to facilitate the changing face of the labour market, and the increasing differences in the personal circumstances and preferences of members. Moreover, the European Commission has also recommended that the Netherlands should make the system of supplementary pensions more transparent, fairer on an intergenerational basis and more resilient to shocks. The Social and Economic Council's (SER) earlier reports have also provided useful guidance in this area.<sup>16</sup>

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<sup>13</sup> Parliamentary Paper 31 311, No 854

<sup>14</sup> Annex to Parliamentary Paper 29 544, No 847

<sup>15</sup> CPB, Policy Brief 2018/12 (*Vertraagde loonontwikkeling in Nederland ontrafeld*)

<sup>16</sup> SER Advisory Report 2015/01 on the Future of the Pension System and the May 2016 Survey on personal pension capital with collective risk sharing.

In the 2017 coalition agreement, the government outlined a direction for the reform of the pension system, in line with earlier recommendations by the SER. An important starting point is the abolition of the average pension contribution system. This will put an end to the redistribution of pension capital from young to old people as a result of the average pension contribution system, the accrual of pension will be more transparent and the system will be more compatible with the labour market. The government has offered the social partners scope to design a pension contract with personal pension capital. Intensive discussions took place between the government and the social partners in 2018 aimed at reaching agreement on a more robust and more personalised pension system. However, these discussions failed to materialise into an agreement.

The urgency of the pension system reform has not evaporated in the wake of the collapse of the pension system consultations. In early 2019, the government therefore took the lead in making the necessary adjustments to the pension system. The government submitted an agenda to the House of Representatives setting out the steps it will take to create a more robust and more personalised pension system. These include the abolition of the average pension contribution system, making contribution schemes more attractive and more accessible, more customisation in the investment policy and the option of a lump sum payment upon retirement. During this process, the government will pay particular attention to the transitional effects associated with the average pension contribution system and the transition to a new pension accrual method. The government is open to developing and making any additions to the above steps in consultation with the social partners, pension administrators and supervisory authorities, and to deriving input from scientific insights and from youth and senior citizens' organisations to ensure broad support for the changes and choices that will be made.

In reforming the pension system, the government considers it essential to retain the strong elements of the system: the high level of mandatory pension accrual, collective administration, group risk-modelling, fiscal support, and sufficient room for surviving dependants' and incapacity for work pension.

### **3.2.3. Country Report The Netherlands 2019**

#### *Summary*

The Commission notes that employment in the Netherlands has grown strongly in 2018 and that the number of unemployed has reached an all-time low. Labour shortages are beginning to emerge. Despite these shortages, wage growth remains moderate. The increased segmentation of the labour market has been identified as a possible cause. The past decade has seen a considerable increase in both temporary work and self-employment. In the country report, the Commission discusses the Balanced Labour Market Act and the measures the government is taking regarding self-employed persons. Furthermore, the Commission states that the Dutch polder model has generally worked well in the past, and that the social partners have also been consulted on labour market reforms and the reform of the pension system.

The Commission states that the three-pillar pension system in the Netherlands scores well on pension adequacy and fiscal sustainability. However, the longer average life expectancy, a changing labour market climate and lower interest rates pose challenges to the current system. Although the financial regulatory framework was modified to somewhat ease funding burdens in 2015, pension funds were forced to take measures to improve the funding ratio: indexation was abolished, premium contributions were increased and, in some cases, nominal pension payments were reduced. According to the Commission, these developments have negatively affected trust in the pension system. In the country report, the Commission also discusses the negotiations between the social partners and the government on the second pillar of the pension system. It states that, despite the shared understanding among stakeholders, the negotiations on a comprehensive reform of the pension system have failed.

The other challenges stated by the Commission in the country report relate to the number of women working part time and the relatively low labour force participation among non-EU migrants.

According to the Commission, the Netherlands has made limited progress on the country-specific recommendations with regard to reducing incentives to use temporary contracts and self-employed persons without employees. Furthermore, according to the country report, limited progress has been made on the recommendation with regard to making the second pillar of the pension system more transparent, fairer on an intergenerational basis and more resilient to shocks. In the Commission's opinion, no progress has been made on tackling bogus self-employment.

#### *Response*

The government acknowledges the challenges described by the Commission. As also noted by the Commission, the government is taking measures to further increase labour force participation and to restore the labour market equilibrium, more information on which is provided in Section 3.2.2.

The Letter to Parliament of 1 February 2019 on the reform of the pension system ("*Kabinetsbrief vernieuwing pensioenstelsel*")<sup>17</sup> sets out the steps the government will take in the forthcoming period to reform the system of supplementary pensions. Although the social partners and the government have failed to reach agreement in the past few months, as also noted by the Commission, the process regarding the pension system reform will certainly continue. The government acknowledges that the current system has given rise to an intergenerational discussion on the distribution of the available pension capital and is inadequately equipped to facilitate the changing face of the labour market, as also outlined by the Commission in the country report.

The government will work on a number of steps in the coming months aimed at creating a more robust and more personalised pension system. This includes developing legislation for the abolition of the average pension contribution system; making the Premium Schemes (Improvements) Act (*Wet verbeterde premieregeling*) more attractive and more accessible; more customisation in the investment policy; and facilitating a lump sum payment. Earlier SER reports were used for this purpose as well as the information derived from the discussions with the social partners in autumn last year. As also agreed in the coalition agreement, the government considers it essential to retain the strong elements of the pension system.

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<sup>17</sup> Letter to Parliament "*Kabinetsbrief vernieuwing pensioenstelsel*", 2019, 32 043, No 443.

### 3.3. Relationship with recommendations for the eurozone

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On 22 March 2019, the European Commission formulated the following recommendations for the eurozone as a whole:

1. Deepen the Single Market, improve the business environment, and pursue resilience-enhancing product and services market reforms. Reduce external debt and pursue reforms to boost productivity in euro area Member States with current account deficits and strengthen the conditions that support wage growth respecting the role of social partners and implement measures that foster investment in euro area Member States with large current account surpluses.
2. Rebuild fiscal buffers in euro area countries with high levels of public debt, support public and private investment and improve the quality and composition of public finances in all countries.
3. Shift taxes away from labour and strengthen education systems and investment in skills, as well as the effectiveness of active labour market policies that support transitions. Address labour market segmentation and ensure adequate social protection systems across the euro area.
4. Make the backstop for the Single Resolution Fund operational, set up a European Deposit Insurance Scheme and strengthen the European regulatory and supervisory framework. Promote orderly deleveraging of large stocks of private debt. Swiftly reduce the level of non-performing loans in the euro area and prevent their build up, including by removing debt bias in taxation.
5. Make swift progress on completing the Economic and Monetary Union, also with the perspective to strengthen the international role of the euro, taking into account the Commission proposals, including those concerning the financial sector as well as the Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multi-Annual Financial Framework.

In general, the government supports the recommendations and states that they are reflected in the policies pursued as well. Deepening the Single Market and implementing structural reforms are appropriate instruments for supporting growth, productivity and resilience within the eurozone. Although wage formation is primarily a process that is conducted between the social partners, the government has pointed out the room for wage increases and as a public-sector employer has also acted on this by implementing wage increases into the Collective Labour Agreement for the Central Government. In addition, the government has lowered the tax burden on labour.

The fiscal stance and policy are discussed in the Stability Programme, which is issued at the same time as this NRP. The government is taking a series of labour market measures to increase labour force participation and to restore the balance between permanent and flexible employment in the labour market.<sup>18</sup> The government is also taking measures to reduce the gap between permanent contracts and flexible working, as explained in Chapter 3.2 of this document.

With regard to the banking sector, the government will adhere to the agreements made in the roadmap to complete the Banking Union. It has been agreed that the backstop to the resolution fund will be operational by 1 January 2024 at the latest, subject to the condition that it must be fiscally neutral in the medium term. The government endorses the Commission's plea for more equal tax treatment of loan capital and equity in the Member States, as also stated in the coalition agreement. The government is taking measures to limit the deductibility of interest in income tax and to thus reduce the tax difference in financing costs. One of these measures is the earnings stripping measure under the first EU Anti-Tax Avoidance Directive. In this regard, the measures taken by the Netherlands extend beyond the minimum requirements.

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<sup>18</sup> More information on the measures that will be put in place to increase labour force participation and to restore the balance between permanent and flexible employment is provided in Sections 4.1 and 3.2.2.

### 3.4. Investment strategy in the context of cohesion policy

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Building on the Commission's 2 May 2018 proposal for the next Multi-Annual Financial Framework (MFF) for the period 2021–2027,<sup>19</sup> the country report discusses the Commission's preliminary views on the priority investment areas and framework conditions for the effective delivery of the cohesion policy for the period 2021–2027. The investment priority areas are derived from the broader context of investment needs, investment bottlenecks and regional disparities assessed in the country report. This section serves as a dialogue between the Netherlands and the Commission on the programming for two of the most important structural funds for the Netherlands, which are the European Regional Development Fund (ERDF) and the European Social Fund Plus (ESF+). This section discusses the policy objectives the Commission has identified for the Netherlands. Chapter 5 of this document explains the use of these structural funds.

The Commission has identified the following policy objectives for the Netherlands.<sup>20</sup>

1. A Smarter Europe – Innovative and smart industrial transformation.
2. A more social Europe – Implementing the European Pillar of Social Rights.
3. A Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.<sup>21</sup>

#### *ERDF in relation to a smarter Europe*

The government shares the Commission's view that permanent investments in innovation are required, as described in Annex D of the country report. Investments in innovation at the national, regional and local levels are indispensable in seeking solutions to social challenges and in further developing key technologies, which is essential for Dutch and European earning capacity. It is important for the central government and the regional and local authorities to work together closely to ensure that the ERDF funds are appropriately allocated in line with regional needs and strengths, while seeking to tie in with national and European policy.

The government concurs with the Commission that investment in innovation should be more broadly interpreted than pure R&D investment. As stated in Annex D, campuses and living labs, for instance, could be an important link in the innovation chain. Innovation investments can often be effectively combined with energy, climate and environmental objectives, such as investments in smart energy systems. Lastly, a key factor is that the investments should have the greatest possible impact. The government therefore shares the Commission's view that the best collaborative partners should also be sought across the border.

#### *ESF+ in relation to a more social Europe*

The government shares the Commission's view that it remains important to invest in vulnerable groups, such as people with low level of education, an occupational disability or asylum status, so that they too can participate or continue to participate in the labour market. To that end, the Commission proposes, based on an integrated policy and in collaboration with various parties, to provide individualised support, such as pathway guidance, on-the-job training and competency development. This ties in with the decentralisation of the social domain and the manner in which the ESF is currently implemented. The government therefore concurs with the Commission's view to utilise the future ESF programme to invest in increasing the human capital of vulnerable groups.

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<sup>19</sup> COM(2018) 321)

<sup>20</sup> A further description of these priorities can be found in Annex D to the Country Report The Netherlands 2019.

<sup>21</sup> This objective does not fall directly under one of the cohesion funds. Chapter 5 provides more information on how the use of the structural funds ties in with this target.

#### 4. Progress on the Europe 2020 strategy

On 17 June 2010, the European Council adopted the Europe 2020 strategy, the EU's growth strategy for the period 2010–2020. Five policy areas were designated: employment, research and innovation, sustainable energy and climate, education and social inclusion. The underlying targets in these areas, as shown in the table below, must be achieved by 2020. The European targets have been translated into specific national targets for the Member States, taking into account the starting positions of each country and their specific challenges. If all countries achieve their national targets, the Europe-wide targets will also be met.

We find these five designated policy areas extremely important in the Netherlands. The targets set are linked to thinking in terms of welfare in a broad sense, which looks not only at the material welfare of the current generations, but also at the quality of life in a broader sense and at the material welfare of later generations and people in other parts of the world. The Netherlands is at the forefront of this development, with the first "Monitor of Well-being" having been published in May 2018 on the initiative of Statistics Netherlands (CBS). The monitor is unique in the world and sheds light on broad well-being using a broad set of indicators. CBS shows how various welfare aspects have evolved over the course of time and how the Netherlands compares with other countries.

**Table 3.** Overview of targets and results of the Europe 2020 strategy

EU headline targets of the Europe 2020 strategy	Netherlands national targets	2017 results
<b>Employment</b> Increase in gross labour force participation (20–64 age group) from 69% to 75% <sup>22</sup>	80%	81.6%
<b>Research and development</b> Increase in research and development expenditure from 1.9% to 3% of GDP	2.5%	1.99%
<b>Sustainable energy and climate*</b> 20% reduction in CO <sub>2</sub> emissions <i>Non-ETS sectors</i> <i>ETS sectors</i> 20% energy from renewable sources 20% increase in energy efficiency	-16% N/A 14% 1.5% per year <sup>23</sup>	-16.5% N/A 6.0% 1.5% per year (average for 2005–2016)
<b>Education</b> Reduction in percentage of early leavers from education Increase in percentage of 30 to 34-year-olds with tertiary education	<8% >40%	7.1% 45%
<b>Social inclusion</b> At least 20 million fewer people at risk of poverty and social exclusion	100,000 fewer people living in households with very low work intensity than in 2008	97,000 fewer than in 2008

\*Actual number for 2016. More recent figures are not yet available.

The headline targets are discussed in detail in Sections 4.1 through 4.5.

<sup>22</sup> The European employment target is defined in terms of net labour force participation (75% in 2020); the national target is defined in terms of gross labour force participation (80% in 2020).

<sup>23</sup> As per the Energy Efficiency Directive (Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC).

### **Country Report The Netherlands 2019**

With regard to the Dutch targets for the Europe 2020 strategy, the main aspects noted by the Commission in the country report are as follows:

- Labour force participation among 20 to 64-year-olds rose to 81.6% in 2018, well above the national target set.
- The European Commission concludes that R&D intensity was 1.99% in 2017. A substantial increase in R&D intensity is required in order to meet the 2.5% target by 2020.
- The Netherlands is expected to amply achieve the national CO<sub>2</sub> emissions reduction target for the non-ETS sectors and is on track to meet the energy efficiency target. The renewable energy target remains a considerable challenge, although the national objective for 2023 is expected to be amply achieved.
- The target figure of at least 40% of the 30–34 age group with tertiary education has been amply achieved, as has the national target of no more than 8% of young people aged 18–25 leaving education early, in other words without a basic qualification.
- The number of people living in households with very low work intensity declined by 97,000 people in 2017 compared to 2008. This means that the Netherlands is approaching the target figure of 100,000 fewer people by 2020.

### *Response*

- It is the government's ambition to increase labour force participation and for everyone to participate according to their ability. In 2017, the gross labour force participation rate was 86%, well above the EU average, which means that the national target has now been achieved.
- The government continues to aim at achieving the 2.5% target for both Horizon 2020 and its successor, Horizon Europe. The government expects that the measures in Section 3.1.2, including the additional investments in research infrastructure and applied research, will not only lead to more public R&D expenditure, but will also prompt more private R&D expenditure. In addition, the government is endeavouring to bolster scientific excellence while increasing the leverage on private R&D investment. From a historical perspective, the level of public investment in R&I in 2017 was high at €6.8 billion (€8.3 billion including the Innovation Box, see Table 2).
- The National Energy Outlook (NEV) 2017 shows that additional efforts are required in order to achieve the renewable energy targets on time. The target is a step closer due to the efforts undertaken last year. In collaboration with the other parties to the Energy Agreement, policy has been further intensified. See Section 4.3 for a more detailed explanation.
- In the country report, the Commission highlights the good results of the Dutch education system as well as the measures put in place by the government to bring about further improvements in the education system. This includes investments in human capital, fostering talent and efforts relating to mobility, training placements and early leavers from education.
- The Netherlands has set itself the target of reducing the number of people (aged 0–64) living in households with very low work intensity (jobless households) by 100,000 people by 2020 (starting point 2008). After the crisis years, in which an upward trend was visible, a downward trend has been occurring since 2015. This corresponds to the declining trend of poverty in the Netherlands since 2013. The risk of poverty is expected to decrease further in the future from 2018 onwards. In conclusion, inter-ministerial policy research is currently being conducted into the causes of the high percentage of part-time workers, and the obstacles preventing people from working more or fewer hours, particularly women.

## 4.1. Employment

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### 4.1.1. National targets

It is the ambition of the Netherlands to increase labour force participation and for everyone to participate according to their ability. The government's aim, in the context of the employment target in the Europe 2020 strategy,<sup>24</sup> is to increase the gross labour force participation rate among the 20–64 age group to 80% by 2020. This target has meanwhile been achieved, with 81.6% gross labour force participation in 2017.

### 4.1.2. New policy aimed at achieving the targets

The current tightness in the labour market offers opportunities for people at a distance from the labour market.<sup>25</sup> The Work Prospects Action Plan includes improving the match between employers and job seekers who need public support for this purpose. Employers want to be able to approach a single regional service desk for employers, with a harmonised regional package of instruments and facilities and a coherent database of all job seekers. To achieve this, the government will set out the direction for the collaboration between the Employee Insurance Agency (UWV), the municipalities and other parties in the labour market regions in administrative agreements and provide financial support. It will make two amounts of €35 million available for this purpose in 2019 and 2020 respectively.

In addition, the Ministry of Social Affairs and Employment is supporting the reinforcement of coordinated service provision to employers through the Job Match programme in a joint effort with the other parties in the labour market region. Furthermore, the government will make available €70 million from 2019 to enable the UWV to provide personalised services to job seekers receiving an unemployment (WW), incapacity for work (WIA) or young people's disability (Wajong) benefit. This will enable the UWV to further expand tailor-made services and to strengthen labour market matching. Personalised services are important in helping people into work.

Unemployment among the Dutch population with a migration background is still relatively high. The government stands for equal rights, equal obligations and equal opportunities, in equal cases for all Dutch people. The government is therefore addressing labour market discrimination and is undertaking efforts to improve the position of Dutch citizens with a migration background through the "Further Integration in the Labour Market" (*Verdere Integratie op de Arbeidsmarkt*) programme.

Lifelong learning will enable everyone to continue to participate in the fast-changing labour market, where substantial shifts are occurring in the required knowledge and skills. Against this background, it is equally important to consider the future. The government therefore wants people to regard learning and developing their skills as natural aspects of their work and life, rather than updating their skills only when they become unemployed or are at risk of losing their job. The government aims to achieve a breakthrough in the area of lifelong learning and create a positive and strong learning culture. The essence of the proposed approach is to encourage people to take control of their career and their life, so that they can continue to develop and make their own choices. The Letter to Parliament on Lifelong Learning<sup>26</sup> outlines five main areas, which the government will elaborate together with various stakeholders.

It is the government's aim to enable both parents to maintain a good work-life balance. Modernisation in the area of work and care is urgently required, also when viewing the Netherlands in an international perspective. As a result of the Additional Leave (Introduction) Act (*Wet invoering extra geboorteverlof*, WIEG), the mother's partner is now entitled to take six weeks leave in the first six

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<sup>24</sup> The employment target at European level is defined in terms of net labour force participation, whereas the national target is defined in terms of gross labour force participation.

<sup>25</sup> For a detailed analysis of the tightness in the labour market, see Parliamentary Paper 29 544, No 833.

<sup>26</sup> Parliamentary Paper 30 012, No 92



months after the birth of a child. The government has also extended adoption and foster care leave for parents from four to six weeks.

The government will promote more gender-sensitive policy from 2019. Unlike the past, when small municipal projects were financed, greater focus will be placed on women's economic independence in regular policy. In addition, the Ministry of Education, Culture and Science will finance the Education for Women with Ambition project (EVA). This project aims to empower and improve the basic skills of less educated women aged 18–55 so that they will have easier access to a job, voluntary work or a training course aimed at increasing increase their economic independence. These measures can help boost women's participation in the labour market.

Furthermore, the government is improving the affordability, accessibility and quality of childcare services. The government will increase the childcare allowance and the child-related budget to further support parents. The child-related budget for middle-income couples will be increased by almost €500 million with effect from 2020. In addition, the government will increase the childcare allowance budget by €248 million per year. Parents who continue to work, or work more, will also have more money to spend. The child benefit budget will be structurally increased by €250 million with effect from 2019.

**Table 4.** Description of the key EU 2020 measures

<b>Progress towards achieving the national employment targets</b>	<b>Status of measures aimed at the targets</b>	<b>Predicted impact of the measures (qualitative/quantitative)</b>
<p>National 2020 target: 80% gross labour force participation rate of 20 to 64-year-olds</p> <p>2017 result: 81.6</p>	<p>Key measures:</p> <ul style="list-style-type: none"> <li>• To make work pay, the income tax rate will be adjusted.</li> <li>• The government will increase the childcare allowance and the child-related budget to further support parents.</li> <li>• The government will strengthen services for job seekers and employers to help more people find work based on the Work Prospects Action Plan, a supplementary budget for personalised services by the Employee Insurance Agency (UWV) and other measures.</li> <li>• The government will address labour market discrimination and will undertake efforts to improve the position of Dutch citizens with a migration background through the "Further Integration in the Labour Market" (<i>Verdere Integratie op de Arbeidsmarkt</i>) programme.</li> </ul>	<p>Stimulating both supply of and demand for labour based on a combination of measures is expected to have a favourable effect on employment.</p>

## 4.2. Research and innovation

Many Member States have set a target of spending 3% of GDP on R&D by 2020. The Dutch target is 2.5%, which takes into account the sectoral structure of the economy. In contrast to other countries, R&D-intensive sectors, such as the automotive industry, represent a relatively small part of the Dutch economy, as indicated by the Commission in the 2018 country report. Vice versa, the current sectoral structure is also influenced by a country's innovation capacity and therefore partly depends on public and private R&D intensity. Although R&I expenditure has increased, total R&D expenditure as a percentage of GDP declined slightly to 1.99% in 2017 (2% in 2016).

**Table 5.** R&D expenditure in the Netherlands as a percentage of GDP<sup>27</sup>

	Private-sector R&D expenditure	Public-sector R&D expenditure	Total R&D expenditure
2011	1.06	0.82	1.88
2012	1.08	0.83	1.92
2013	1.07	0.86	1.93
2014	1.11	0.87	1.98
2015	1.11	0.87	1.98
2016	1.16	0.83	2.00
2017	1.17	0.82	1.99

Source: CBS (Statline)

The term "public expenditure on research and innovation (R&I)" is also used in the NRP, and refers to the total amount of funds budgeted by the central government for conducting and fostering research, development and innovation at knowledge institutes and businesses (including the tax instrument under the Research and Development (Promotion) Act (*Wet bevordering speur- en ontwikkelingswerk*, WBSO)). This is shown in Table 2 and in Figure 4. The target for the EU and the Netherlands relates to the R&D *conducted* as a percentage of GDP. The government funds for R&I make a significant contribution in this area. Both figures are therefore reported in this NRP.

The difference between public and private R&D expenditure (Table 5) relates to the *conduct* of R&D as measured by CBS. Public R&D refers to research and development conducted by public knowledge institutes, irrespective of the source of funding. Private R&D is conducted by businesses.

The 2.5% target includes both public and private R&D expenditure. There is no further breakdown of the share of public and private expenditure in this target. Contrary to public expenditure, which is above average from an international perspective (NL: 0.82% of GDP, EU average: 0.66%), private expenditure trails behind the EU and OECD averages. The absolute increase in R&D expenditure in the private sector exceeded GDP growth in 2017, due to which private R&D intensity rose (from 1.16% of GDP in 2016 to 1.17% of GDP in 2017).

If the budget for the WBSO scheme – the tax incentives that promote direct private investment in R&I – were included in the calculations, the public investment figure for the Netherlands would be 0.17 percentage points higher than the figure shown in Figure 2. The Netherlands is one of the countries that makes relatively extensive use of this type of incentive.<sup>28</sup> This commitment fits with the research finding that tax incentives stimulate private investment in R&I, provided that they are well designed.<sup>29</sup>

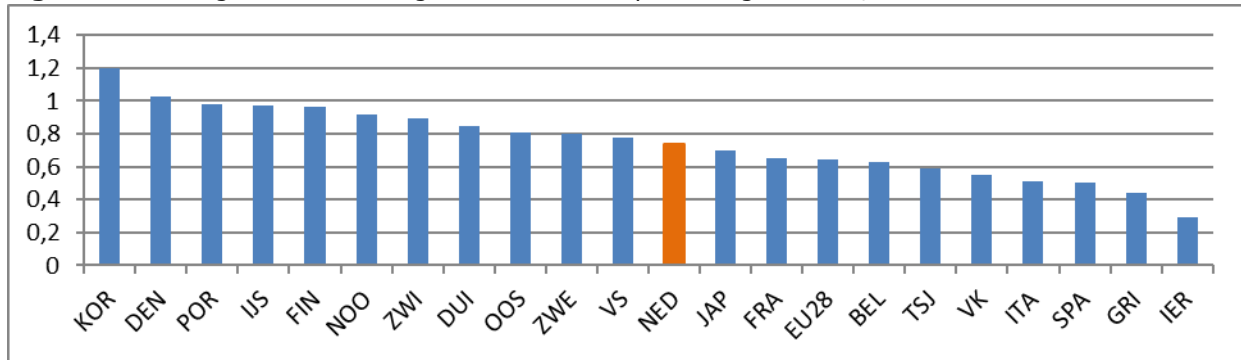
<sup>27</sup> In addition, the figures in this table cannot be compared to the figures published in the NRP in previous years, due to adjustments of the GDP and changes in the methodology used to distinguish between the public and private sectors.

<sup>28</sup> OECD, 2017, "[Measuring Tax Support for R&D and Innovation](#)". Incidentally, the OECD does not count instruments such as the Innovation Box when compiling its international overview.

<sup>29</sup> IMF, 2016, "Acting Now, Acting Together". In Chapter 2: "Fiscal Policies for Innovation and Growth". Dutch schemes are cited as an example of a best practice in this report.

Such incentives are important for the Netherlands, given that the level of private investment in the Netherlands lags behind the international level.

**Figure 2.** Direct government budgets for R&D as a percentage of GDP, 2015



Source: Rathenau Institute/Eurostat

The government considers public private partnerships between businesses, knowledge institutes and the local and regional authorities extremely important in stimulating R&I, as well as in creating the right framework conditions (see also Section 4.4 on Education).

Apart from innovation policy, the Dutch enterprise policy consists of policy aimed at entrepreneurship (measures such as financing instruments), industry policy (also aimed at improving the business climate), human capital (Technology Pact) and the regulatory burden. The innovation policy can be subdivided into three pillars. The first, generic, pillar of the innovation policy is accessible to all businesses. Examples are the tax incentive schemes for innovation (WBSO and Innovation Box), establishing a good connection between education and the labour market and a properly functioning system for intellectual property.

The second pillar is geared to the availability of risk-bearing business financing. The instruments used for this purpose include the Innovation Credit and the Dutch Venture Initiative.

The third pillar of the innovation policy consists of the Mission-Oriented Innovation Policy and is geared specifically to a number of social challenges and key technologies. The essence of the policy is public-private partnerships (PPP) between businesses, knowledge institutes and the government based on jointly establishing Knowledge and Innovation Agendas (KIAs). From 2019, the missions constitute the guiding principle in establishing public-private KIAs for four social themes and key technologies. This means that those agendas are no longer based on the top sectors, but rather on social challenges and key technologies. The new KIAs will be established in mid-2019. The KIAs constitute the basic premise of the Knowledge and Innovation Contract (KIC) that will be drawn up in autumn 2019. This contract sets out the allocation of public funds and the purposes for which they will be used (in 2019: €1.1 billion per year), which will be implemented by the Top Consortia for Knowledge and Innovation (TKIs). The TKIs receive a subsidy of 30% on private contributions from the Ministry of Economic Affairs and Climate Policy via the PPP allowance. The allowance is almost exclusively used for research at public knowledge institutions.

The Enterprise Policy Progress Report shows that the government's policy measures are producing increasingly better results.<sup>30</sup> The Netherlands retained its fourth place on the European Innovation Scoreboard and ranks among the group of Innovation Leaders (countries with a score of more than 20% above the EU average). Its performance relative to other EU countries has improved. The Netherlands ranks second in the Global Innovation Index. The Netherlands also held onto fourth place

<sup>30</sup> Ministry of Economic Affairs, 2017, Enterprise Policy Report 2017 "[Navigeren met wind in de zeilen](#)"

in the European Commission's Digital Economy and Society (DESI) index.<sup>31</sup> This composite index shows the extent to which a country capitalises on economic and social opportunities offered by information and communication technology (ICT).

Following on from the Vision for Science 2025, the government has worked with knowledge institutes, businesses and civic organisations to publish the Dutch National Research Agenda (NWA). The government will invest up to €130 million in the NWA with effect from 2020. Knowledge will be developed through the NWA routes for scientific breakthroughs and for social challenges, such as climate change, cybersecurity, the circular economy, sustainable food, water, health, conflict mediation and unequal opportunities.

The task of strengthening the Dutch economy can be better facilitated if a properly functioning knowledge and innovation system is in place. The cornerstone of this system is that the science sector will collaborate with the public knowledge chain – with applied research institutes – and with the end users of that knowledge, including businesses. The NWA will be strongly linked to the top sector policy, where possible, including public private partnerships and the departmental knowledge agendas. In addition, investments in sectoral plans (increasing to €60 million from 2020 for scientific and technical research and €10 million for the social sciences and the humanities) will contribute to achieving greater focus and collaboration in order to consolidate the leading position of Dutch science.

Although the Netherlands is not a leader in terms of the size of its budget for publicly conducted R&I, it still achieves excellent scientific results. This is reflected, for instance, in the position of the Dutch universities in the international rankings. All universities have ranked among the top 200 in the various rankings for many years. The vision, ambitions and policy priorities for the years ahead are set out in the Science Brief "Curious and committed – The value of science" (28 January 2019). The ambitions are as follows: (1) Dutch science has global impact; (2) science is connected to society; and (3) the Netherlands is a breeding ground and a harbour for talent.

The government will strengthen Dutch science and the innovation position of the Netherlands by implementing the Science Brief "Curious and committed – The value of science" and the Letter to Parliament "Towards a mission-oriented innovation policy with impact". The NWA contributes to the European target of creating a European Research Area (ERA). Through the NWA, the government will undertake further efforts in the following areas: innovative and socially relevant research, strengthening fields of science requiring attention, particularly science and technology, the Innovational Research Incentives scheme, applied research at universities of applied sciences and research infrastructure and facilities. The Letter to Parliament "Towards a mission-oriented innovation policy with impact" focuses on efforts to strengthen the social relevance of missions.

In the short and medium term, the NWA will be reflected in the profiles of research universities and universities of applied sciences, the programming of the knowledge coalition partners, the direction of development of the national research institutes and the investments in major research facilities. Raising the profile of Dutch science with an individual agenda will moreover strengthen the Dutch position in international partnerships.

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<sup>31</sup> European Commission, 2017, <https://ec.europa.eu/digital-single-market/en/desi>

**Table 6.** Description of the key EU 2020 measures

Progress towards achieving the national 2020 R&D targets	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
<p>National 2020 target: 2.5% of GDP 2017 result: 1.99% of GDP</p>	<p>Key measures:</p> <ul style="list-style-type: none"> <li>• funding public knowledge institutions;</li> <li>• fiscal instruments for R&amp;I (WBSO, Innovation Box);</li> <li>• financing instruments;</li> <li>• Future Fund;</li> <li>• Invest-NL;</li> <li>• matching and co-financing in the context of Horizon 2020 and ERDF;</li> <li>• PPP allowance (30% from 2018);</li> <li>• the Regional and Top Sector Incentive scheme for SMEs, in collaboration with the regions;</li> <li>• SBIR;</li> <li>• Dutch National Research Agenda (NWA) funds;</li> <li>• strengthening the digital infrastructure;</li> <li>• Innovational Research Incentives scheme;</li> <li>• sectoral plans;</li> <li>• strengthening applied research;</li> <li>• investments in research facilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Policy measures consist of either direct public R&amp;I expenditure or the promotion of private R&amp;I expenditure.</li> <li>• Due to the increased government investments in R&amp;I, with a leverage on private R&amp;I investment, the Dutch R&amp;D intensity can continue to grow (from 2018).</li> <li>• More Dutch projects in Horizon 2020 and better alignment with EU research and innovation priorities, together with more private investment in public-private partnerships, will lead to higher private R&amp;I expenditure, the improved availability of risk capital and more knowledge valorisation.</li> </ul>

### 4.3. Climate change and sustainable energy supply

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#### 4.3.1. National targets for the Europe 2020 strategy

In signing the Paris Climate Agreement, the Netherlands made a commitment to achieve a significant reduction in CO<sub>2</sub> emissions to fight global warming. The Netherlands is pursuing a realistic and ambitious green growth strategy that combines a commitment to economic growth and strengthening competitiveness with improving the environment, and capitalises on social initiatives. In 2013, under the overarching coordination of the Social and Economic Council (SER), the government entered into an Energy Agreement for sustainable growth with more than 40 parties, including the 36 largest municipalities in the Netherlands. Four of the ambitions set out in the agreement contribute to the European targets for climate change and a sustainable energy supply:

- reducing final energy consumption by 1.5% on average per year;
- reducing final energy consumption by an additional 100 petajoules (PJ) by 2020;<sup>32</sup>
- increasing the share of renewable energy to 14% by 2020;
- increasing the share of renewable energy to 16% by 2023.

A Monitoring Committee was appointed with an independent chairperson to support the implementation of the Energy Agreement. The Monitoring Committee oversees the progress of the implementation of the Energy Agreement and addresses any problems that may arise in a swift and appropriate manner.

A mandatory national target of 16% has been set by the EU for the Netherlands to reduce greenhouse gases in the non-ETS sectors by 2020 relative to 2005. That target will be amply achieved in accordance with the National Energy Outlook (NEV).

Companies that fall under the European Emissions Trading System (ETS) are only subject to an overarching European target. The European ETS target will, by definition, be achieved on the basis of the corresponding emission ceiling. The contribution of Dutch ETS companies in achieving that target is still relatively limited. Figures published by the Dutch Emissions Authority (NEa) in April 2017 showed that CO<sub>2</sub> greenhouse gas emissions produced by Dutch industry remained almost unchanged in 2016 against the previous year.

The National Energy Outlook (NEV) 2017 shows that the Netherlands is on track to achieve 1.5% energy savings annually and that the 16% renewable energy target will be exceeded by 2023. However, additional efforts are required regarding the other two targets, the additional energy savings of 100 petajoules and 14% renewable energy by 2020, in order to achieve the targets on time. Policy has been intensified in collaboration with the other parties to the Energy Agreement. The government's approach to renewable energy and energy efficiency is set out below.

The 2017 NEV shows that the renewable energy target for 2023 will be achieved. According to the 2017 NEV, delays in the procedures for granting permits and limited public support mean that the Netherlands is not on track to achieve the target set for onshore wind energy. To address these issues, efforts are being undertaken in the area of environmental management, and there is a possibility that an area coordinator may be appointed. Conversely, a number of offshore wind projects have been successfully rolled out using a robust cost-reducing tendering system.

The Sustainable Energy Production Incentive (SDE+) scheme remains the most important tool for achieving the renewable energy targets. The Ministry of Economic Affairs and Climate Policy promotes the development of a sustainable energy supply in the Netherlands through the SDE+ scheme. In

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<sup>32</sup> A reduction of 100 PJ would easily surpass the European target of 1.5% as stated in the Energy Efficiency Directive 2012/27/EU.

2017, the SDE+ scheme made another important contribution to achieving these targets. A total of €8 billion was set aside for projects. The budget was allocated across two rounds for calls. This means more room for adjustment and more opportunities to submit projects, which will benefit projects' lead times.

More intensive work on policy measures has given rise to a scheme for small-scale renewable heating options, launched on 1 January 2016. Since no government tools existed for these options, although they had the potential to make an important contribution to achieving the renewable energy targets, the Sustainable Energy Investment Subsidy (ISDE) scheme was created. Progress has also been made in other areas, such as manure mono-fermentation, geothermal power and renewable energy production in sports facilities, with the aim of enabling these elements to contribute to the achievement of the renewable energy target. The target of achieving a share of 14% renewable energy by 2020 will remain within reach, partly due to the efforts under this additional policy and the ambition reconfirmed by the parties to the Energy Agreement to achieve 6000 MW onshore wind energy by 2020. Incidentally, it has emerged that the share of renewable energy will continue to grow considerably after 2020, to 16.7% by 2023, according to the European calculation method.

The 2017 NEV clearly indicates that the pace of energy conservation in the Netherlands will be sufficiently high in the years ahead. The Netherlands is also well on track to meet the targets in the European Energy Efficiency Directive. According to the 2017 NEV, the national target agreed in the Energy Agreement of an additional 100 PJ of energy savings is still out of reach, despite a clear improvement since the 2016 NEV. Additional efforts will be undertaken in the context of the Environmental Management Act (*Wet Milieubeheer*).

The NEV was not published in 2018 on account of the negotiations on the Climate Agreement. Instead, a limited extrapolation was made in January 2019 regarding two targets that, according to the NEV, were not within reach, the 100 PJ energy savings and 14% renewable energy by 2020. The calculation shows that a further step in the right direction has been taken in terms of the 100 PJ, although it is not yet sufficient. In absolute terms, renewable energy capacity has risen. However, the strong economic growth has also boosted energy consumption, due to which the targeted percentage of renewable energy by 2020 has declined. As a result of these forecasts, the parties to the Energy Agreement – including the central government – must now consider how all the agreed targets can be achieved.

#### *National ambitions for the period after 2020*

Policy has been announced in the Rutte III coalition agreement on the further climate and energy transition towards 2030 and 2050. The government aims to reduce greenhouse gases by 49% by 2030 compared to 1990, an ambition that exceeds the 2030 European target of 40%. In this context, the government has set a single target for the reduction of greenhouse gas. While the renewable energy and energy savings contributions to that target remain vital, separate targets for these areas are no longer being considered. Against this background, the government intends to achieve the reduction in greenhouse gases at the lowest costs by focusing on the most cost-effective options for reducing greenhouse gases.

This new policy will be formulated in a Climate Agreement that is to be concluded in the near future, which will include the necessary contribution from the ETS sector to the climate and energy transition. In addition, the House of Representatives has passed the Climate Bill and it is currently before the Senate. The bill enshrines the targets for 2030 and 2050 in law.

**Table 7.** Description of the key EU 2020 measures

Progress towards achieving national 2020 climate and energy targets	Status of measures aimed at the targets	Predicted impact of the measures (qualitative/quantitative)
National 2020 target: 16% reduction of greenhouse gases in the non-ETS sector 2015 result: 16.5% reduction of greenhouse gases in the non-ETS sector	Key measures: <ul style="list-style-type: none"> <li>• more fuel-efficient vehicle fleet;</li> <li>• energy conservation in the built environment;</li> <li>• increased use of renewable energy in greenhouse horticulture.</li> </ul>	The policy measures implemented and proposed are expected to lead to a further decline in emissions in the non-ETS sectors between 2013 and 2020 of 23% in 2020 compared to 2005.
National 2020 target: 14% renewable energy production 2016 result: 6% renewable energy production	Key measures: <ul style="list-style-type: none"> <li>• annual call for projects in the SDE+ scheme;</li> <li>• incentives for small-scale heating options through the ISDE scheme;</li> <li>• roll-out of offshore wind projects, tendering system;</li> <li>• reduced rate for local energy production;</li> <li>• agreements with provinces to achieve 6000 MW of onshore wind production.</li> </ul>	Moderate growth was seen in 2016, but due to the effect of the operating grants provided under the SDE and SDE+ schemes, regulations for renewable energy in transport and energy performance standards for buildings, this share will grow substantially from 2017, swiftly followed by a significant catch-up. The cost reduction in offshore wind energy agreed in the Energy Agreement has already been achieved. Developments in that area are occurring rapidly.
National 2020 target: 1.5% energy efficiency per year 2016 result: 1.5% energy efficiency per year on average (2005–2016)	Key measures: <ul style="list-style-type: none"> <li>• implementation of measures from the Energy Agreement, including the energy performance incentive scheme for the rental and owner-occupier sectors;</li> <li>• European emissions requirements and national incentives for fuel-efficient vehicles that have had a positive impact on the transport sector;</li> <li>• proposed policy measures in the services sector, industry and the agricultural sector, which will lead to an increase in energy conservation.</li> </ul>	The 2017 NEV shows that the rate of energy savings is rising considerably to 1.7% per year, partly as a result of the Energy Agreement measures. In line with the 2017 NEV, the energy savings achieved through these measures amount to 75 PJ (bandwidth 41–102 PJ). The extrapolation to 2019 amounts to 81 PJ (bandwidth 52–108). The expectation is that the effect of the intensified energy savings measures may bring the target of 100 PJ of additional energy savings by 2020 within reach. Some of the intensified measures still need to be further elaborated. Even without these intensified measures, the European energy efficiency target is expected to be comfortably exceeded, provided that both existing and proposed policy measures are enforced (target = 482 PJ, 2017 NEV projection for 2020 = 721 PJ).



## 4.4. Education

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### 4.4.1. National targets for the Europe 2020 strategy

The Netherlands aims to be one of the top five nations in the world in the field of education. The percentage of tertiary graduates in the Netherlands remains relatively stable, and is higher than the European target of at least 40%. In 2017, 48% of the 30–35 age group were tertiary graduates. In terms of the number of early leavers from education, the Netherlands has again already met the European target of a maximum of 10%. The Netherlands had set itself a more challenging ambition of reducing the number of early leavers from education to 8% by 2020. The Netherlands has meanwhile achieved this ambition; in 2017, 7.1% of young people in the 18–24 age group had no basic qualification.

### 4.4.2. New policy aimed at achieving the targets

#### *Higher education*

In recent years, a stronger focus has been placed on improving the quality and accessibility of higher education in the Netherlands, rather than on increasing the percentage of tertiary graduates, which is already 48%. In April 2018, the Minister of Education, Culture and Science concluded the agreement "Investing in the Quality of Education, Quality Agreements 2019–2024" with the Netherlands Association of Universities of Applied Sciences, the Association of Universities in the Netherlands (VSNU), the Dutch National Student Association (ISO) and the National Student Union (LSVb).<sup>33</sup> This agreement sets out a system of quality agreements for the period 2019–2024. In drawing up the agreement, explicit lessons were learned from the experiences with the 2012–2017 performance agreements with the individual universities of applied sciences and research universities. Based on the quality agreements, the funds released since 2018 as a result of the introduction of the student loan system will be invested in improving the quality of higher education. An important principle underlying the quality agreements is that the areas in which additional investments are needed the most can best be determined by the institutions themselves, in the dialogue between executive staff, lecturers, students and other relevant stakeholders. The institutions determine their own requirements for six national themes: teaching intensity, student guidance, study success rates, educational differentiation, educational facilities and lecturer quality.

The Ministry of Education, Culture and Science is currently working on developing a new Strategic Agenda for Higher Education and Research that will be published at the end of 2019. The policy intentions regarding quality and accessibility, from both a national and international perspective, will be revisited.

#### *Early leavers from education*

Over the next few years, to provide more young people with better future prospects, the Ministry of Education, Culture and Science will continue the successful elements of the "Tackling Early School-Leaving" programme, albeit with a number of adjustments. For example, more responsibility will be placed on regional parties. They will be requested to pay particular attention to young people in vulnerable situations. The involvement of more parties in the regional collaboration will be encouraged, including parties in the labour market and healthcare domains. To support the follow-up approach, the Ministry will provide appropriate funding. Around €140 million in total will be available annually for policy measures targeting early leavers from education, both for regional use and for tackling the problem at schools. Schools and municipalities will work together to decide how they want to use the regional budget. In 2016, all 39 regional registration and coordination (RMC) regions initiated new four-year plans containing measures aimed at preventing early school-leaving and at offering young people in vulnerable situations appropriate supervision.

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<sup>33</sup> Parliamentary Paper II 2017/18, 31288, No 621.

**Table 8.** Description of the key EU 2020 measures

<b>Progress towards achieving the national employment targets</b>	<b>Status of measures aimed at the targets</b>	<b>Predicted impact of the measures (qualitative/quantitative)</b>
National EU 2020 target: >40% of 30–34 age group with tertiary education 2016 result: 45% of 30–34 age group with tertiary education	Key measures: Implementation of the Strategic Agenda for Higher Education and Research	The percentage of the 30–34 age group with tertiary education remains stable at over 40%.
National EU 2020 target: <8% early leavers from education 2017 result: 7.1% early leavers from education	Key measures: Implementation of the follow-up approach to early school-leaving	The maximum number of early leavers from education will amount to 8% by 2020.

## 4.5. Poverty and combating social exclusion

The Netherlands has set itself the target of reducing the number of people (aged 0–64) living in households with very low work intensity (jobless households) by 100,000 by 2020 (starting point 2008). The age in the national definition is based on the population aged 0–64, whereas the age at European level is based on the population aged 0–59.<sup>34</sup> Based on the Dutch indicator used for the Europe 2020 poverty target, the percentage of people living in households with very low work intensity declined in 2017 compared to 2016. A decline of 0.3 percentage points is evident.<sup>35</sup> This equates to a reduction of 46,000 people (see Table 9) and a decrease of 97,000 people compared to 2008.

Following an increase in the number of people living in households with very low work intensity during the crisis years, a decline has been occurring since 2014. This is inconsistent with the upward trend of the risk of poverty in the Netherlands since 2014 (CBS, Statline). In the period 2014–2017, an increase can be seen in the number of people with a long-term risk of poverty (more than four consecutive years) from 2.3% to 2.6%.<sup>36</sup>

People living alone and single-parent families whose children are all underage are over-represented in very low work intensity households (31.4% and 34.7% respectively). Women continue to be over-represented in very low-work intensity households.

**Table 9.** Number of people living in households with very low work intensity

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
People living in households with very low work intensity in NL (aged 0–64) x 1,000	1,613	1,641	1,595	1,678	1,635	1,624	1,680	1,653	1,562	1,516

Source: CBS maatwerkcijfers

According to the "At Risk of Poverty and Social Exclusion" (AROPE) indicator, the percentage of people at risk of poverty and social exclusion in the European Union declined from 23.5% to 22.4% between 2016 and 2017. In the Netherlands, the percentage of people at risk of poverty and social exclusion rose slightly from 16.7% to 17.0%. The risk of poverty and social exclusion in the Netherlands is still significantly lower than the EU average. In 2017, the risk was smaller only in the Czech Republic, Slovakia and Finland.

**Table 10.** People at risk of poverty and social exclusion

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
European Union-28*	23.7%	23.3%	23.8%	24.3%	24.8%	24.6%	24.4%	23.8%	23.5%	22.4%
The Netherlands	14.9%	15.1%	15.1%	15.7%	15.0%	15.9%	16.5%	16.4%	16.7%	17.0%

\*EU-27 for 2008 and 2009, source: Eurostat

### 4.5.2. New policy aimed at achieving the targets

In line with the coalition agreement, the government will devote considerable efforts to tackling debt. Under the comprehensive approach to debt reduction, various ministries, municipalities, public-sector organisations and private-sector parties will undertake joint efforts to reduce the number of people with problematic debts and to provide more effective assistance to people in debt. The comprehensive approach to debt reduction includes not only the measures aimed at tackling debt set out in the coalition agreement, but also existing measures from the various ministries and initiatives from the

<sup>34</sup> According to Eurostat figures, which also include groups such as students.

<sup>35</sup> As the national EU 2020 target is based on people up to 64 years of age, no specific data are available for people aged 65 and over for this target, despite the increase in the retirement age.

<sup>36</sup> <https://opendata.cbs.nl/statline/#/CBS/nl/dataset/83843NED/table?ts=1547812711416>

professional field. A letter containing a progress report on the comprehensive approach to debt reduction will be submitted to the House of Representatives in spring.

The government is in favour of an integrated approach to poverty reduction. This means that every situation will be examined from a broad perspective, from a lack of income to social exclusion. It also means looking at the role and impact of various domains on poverty, such as work, healthcare, housing and education. Poverty policy is decentralised so that it can be designed close to citizens and customised solutions can be offered. The inter-ministerial and inter-administrative programme for the social domain aims to strengthen the integrality of local policy in that domain. The programme centres on identifying and eliminating barriers standing in the way of providing concrete solutions to citizens in complex situations.

In tackling poverty, the government will focus special attention on the position of children. Every child in the Netherlands should be able to participate, because this will considerably increase their chances in life. To achieve this aim, €100 million was made available on a structural basis in 2017 to municipalities and a number of civic organisations working with children living in poverty, on the understanding that the money will be paid to children in kind.<sup>37</sup> Of the above amount, €85 million will be allocated to municipalities. Administrative agreements have been made with the Association of Dutch Municipalities (*Vereniging van Nederlandse Gemeenten*, VNG) regarding the use of these funds. These agreements were evaluated in 2018. In 2017, the municipalities made good progress in achieving the ambitions set out in the administrative agreements. Nine out of ten municipalities are now offering in-kind benefits, the additional funds from the €85 million have predominantly been spent on child poverty policy and more children living in poverty have been reached than in the previous year. The ambitions in the administrative agreements with the VNG have not yet been achieved by all municipalities. A number of improvements should be made, particularly in reaching the target group and in obtaining insight into the use of funds.

Four civic organisations engaged in the social participation of children living in poverty will receive €10 million, subject to the condition that the purposes for which these funds will be used are additional to their regular activities, and that the parties will work with each other and with the municipalities. In 2017, the organisations reached more children as a result of the additional funds and they have strengthened collaboration at both the national and local levels. In 2019, an additional €4 million was released to provide a further financial boost to the collaboration.

Apart from efforts aimed at the social participation of children living in poverty, the government will also focus efforts on addressing the root causes of child poverty. The government aims to prevent poverty by helping more people find work, making work pay and improving the income position of families with children and through the comprehensive approach to debt reduction. In the coalition agreement, an additional €80 million has therefore been made available to tackle poverty and debt, €72 million of which will be allocated to municipalities to strengthen the local control function of poverty policy.

In March 2017, the Social and Economic Council (SER) issued a recommendation in its advisory report "*Opgroeien zonder armoede*" ("Growing up without poverty") to set an ambitious, specific, quantitative reduction target for the number of poor children. In response, the CPB Netherlands Bureau for Economic Policy Analysis, the Netherlands Institute for Social Research (SCP) and Statistics Netherlands (CBS) conducted a joint survey to determine whether unambiguous poverty indicators could be developed that could potentially be used for a reduction target. The memorandum from the research agencies was published on 20 November. The government is discussing the survey results and a potential target with the VNG.

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<sup>37</sup> House of Representatives, 2016–2017 session, 24 515, No 378.

House of Representatives, 2016–2017 session, 24 515, No 380.

The government is undertaking efforts through various channels to reduce poverty among families. The measures taken by this government include increasing the general tax credit and the employed person's tax credit and lowering tax rates. It has also increased the healthcare benefit for couples, child benefit and childcare allowance. The phase-out pathways of the child-related budget and the housing benefit will be adjusted to ease the marginal pressure.

In the first place, this will result in a rise in the disposable income of low-income parents; in the second place, working – and working more – will pay more. This is particularly important to the government, because work is the best way out of poverty. However, the increase in the general tax credit also means that households with a social assistance benefit will receive a higher benefit, because of the link between net benefits and the net minimum wage. Working families with children will benefit from a higher childcare allowance, while all families will benefit from a higher child benefit.

Furthermore, the government aims to remove barriers that stand in the way of people accepting work and to ease the transitions between daytime activities, sheltered employment, jobs for people with an occupational disability and a regular job. At present, people are afraid that they will no longer be able to fall back on their benefits and have an insufficient understanding of what working means for their wallet.

**Table 11.** Description of the key EU 2020 measures

<b>Progress towards achieving national targets for poverty and combating social exclusion</b>	<b>Status of measures aimed at the targets</b>	<b>Predicted impact of the measures (qualitative/quantitative)</b>
<p>National EU target: 100,000 fewer people in jobless households than in 2008. 2017 result: 98,000 fewer people in jobless households than in 2008.</p>	<p>Key measures:</p> <ul style="list-style-type: none"> <li>• an additional €100 million per year for child poverty (from 2017);</li> <li>• temporary additional funds to combat poverty and debt, specifically among children (€80 million in total for the period 2018–2020);</li> <li>• a financial boost of €4 million for the four collaborative poverty alleviation organisations;</li> <li>• increase in benefits (child-related budget, childcare allowance);</li> <li>• financial incentives for employers to hire people;</li> <li>• offering better protection against bogus self-employment schemes;</li> <li>• more intensive guidance for specific groups of unemployed people;</li> <li>• enabling experimentation within the Participation Act (<i>Participatiewet</i>);</li> <li>• City Deals – solutions for integrated customisation within the social domain;</li> <li>• agreements with municipalities to reduce the poverty gap;</li> <li>• comprehensive approach to debt reduction.</li> </ul>	<ul style="list-style-type: none"> <li>• Working for minimum wage after coming off a benefit is now beneficial, and working an extra day a week is now more profitable for second earners. More single people, single parents and second earners with young children will be encouraged to enter the workforce.</li> <li>• A comprehensive approach to tackling poverty and debt will be implemented for the purpose of more effective, efficient and sustainable prevention.</li> <li>• Specific investments will be made in child poverty to prevent social exclusion and future disadvantages.</li> <li>• Collaboration between public and private parties will be strengthened to reach target groups more comprehensively and effectively.</li> <li>• More knowledge of the effectiveness of financial incentives and labour and re-integration requirements in order to implement the Participation Act more effectively.</li> <li>• Ongoing reform in the social domain by developing integrated alternative arrangements in areas such as housing, work and income, healthcare, youth assistance and social support. The emphasis is on the most vulnerable households. These are often people who rely on multiple forms of support and</li> </ul>

		would benefit from an integrated approach.
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## 5. European funds and the Europe 2020 strategy

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The effective use of European structural and investment funds (ESI funds) supports the achievement of Dutch policy objectives, in part linked to the Europe 2020 strategy.

The four ESI funds that the Netherlands is eligible to use contribute to the European targets for employment, research and innovation, sustainable energy and climate, and social inclusion. These funds are the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). European funds totalling over €1.9 billion have been allocated to the Netherlands for the period 2014–2020 for the seven national and regional operational programmes operated by these funds. In addition, there are four cross-border programmes (INTERREG), for which around €0.3 billion is available. Apart from the European funds, national, decentralised and private funds are also used for the programmes.

### *Increase labour force participation*

The ESF contributes, among other things, to the EU 2020 target to increase labour force participation by including unutilised labour potential in the labour market by means of active reintegration (active inclusion), and by preventing people from dropping out of the labour force prematurely and promoting working longer (sustainable employability). Despite the economic growth and the further tightening in the labour market, it has emerged that certain groups at a large distance from the labour market – people with an occupational disability, asylum permit holders, long-term unemployed and vulnerable young people – remain on the sidelines and face a higher risk of poverty. By dedicating the ESF funds to supporting these vulnerable groups in the 35 labour market regions, the Netherlands can contribute to achieving the Europe 2020 targets. In this programme period, €363 million from the EFS budget has been made available for active inclusion. A large portion of this budget has already been committed and the targets for the number of participants to be reached have been achieved. A budget of €102 million is available for sustainable employability. As at year-end 2018, with support from the ESF, policy was developed by 4,200 businesses across various sectors aimed at making and keeping employees employable in the long term. Lastly, it was noted that a mismatch between labour supply and demand is one of the main causes of people remaining on the sidelines in the long term. The Integrated Territorial Investment (ITI) instrument, supported with funds from both the ESF and EFRO, is being used to address the mismatch on the labour market in the four major cities in the Netherlands.

### *Research and innovation*

The four regional ERDF programmes mainly focus on research and innovation. Around three quarters of the total ERDF budget is earmarked for innovation, mainly in the SME sector. The programmes are aimed at improved and innovation-oriented collaboration between businesses, knowledge institutes and government authorities, better alignment between education and the labour market (mainly in the area of technical staff), promoting application knowledge, for the Smart Industry for instance, and improving the business climate in the four major cities of the Netherlands (through ITIs). Over €900 million has been committed up to year-end 2018 to ERDF projects aimed at research and innovation. In the period before 2019, the investments in these projects have already stimulated more than 1,900 businesses to market innovative ideas and more than 700 businesses to collaborate with research institutes.

In addition, EAFRD, the Rural Development Programme, invests in, among other things, innovation in rural areas, the modernisation of agricultural businesses (including supporting young farmers) and strengthening the agricultural structure. EMFF fosters innovation with the aim of improving returns and implementing sustainability in the fishing industry and aquaculture, and strengthening collaboration across the entire fishery supply chain.

### *Energy and climate*

All ESI funds contribute to the sustainable energy and climate objectives. Around 60% of the available EAFRD budget has been allocated to climate change and protection of the environment. This includes

subsidy schemes for "non-productive investment projects" pertaining to the Integrated Approach to Nitrogen, biodiversity and water. On 1 January 2019, all provinces issued calls for applications for the subsidy schemes and some 140 projects were launched and began implementing the climate-related improvement measures, representing over €150 million in committed EU funds. Currently, the subsidy applications of almost 80 projects are still being processed. This target also includes the implementation of the Agricultural, Nature and Landscape Management programme. The system was changed from individual to collective agricultural, nature and landscape management contracts in 2016. Forty collectives are now working on this measure. The collectives will receive a subsidy of over €500 million (50% from the EU and 50% from the provinces) over a seven-year period.

EMFF focuses on fostering innovation in the Dutch fisheries sector to address climate challenges facing the sector and on the efficient use of natural resources. Efforts are directed towards reducing emissions in the fisheries sector and more selective fishing methods. In addition, a number of large IT projects were financed by the government for the purpose of digital registrations, inspections and reporting in the fisheries sector, and research is being conducted on the size of fish stocks.

With regard to the EU 2020 sustainable energy and climate target, the ERDF programmes focus on fostering innovation in the area of low-carbon technologies, putting existing state-of-the-art techniques into practice (smart roll-out) and reducing energy consumption in the built environment. As at year-end 2018, over €240 million had already been committed to these ERDF projects. To conclude, the ESF focuses on retraining and reintegrating unemployed job seekers into "green jobs".

#### *Combating poverty and promoting social inclusion*

The ESF additionally contributes to the target of reducing poverty and promoting social inclusion. Similar to the measures aimed at increasing labour force participation by vulnerable groups, this entails increasing employment opportunities and employability and helping groups at a large distance from the labour market find paid work. The take-up of the ESF programme was high during this programme period, due to factors such as an efficient implementation structure, which places a strong emphasis on the simplification of cost accounting measures and the increased supervision of applicants. The evaluation of the active inclusion component of the ESF programme shows that, with support from the ESF, more people at a large distance from the labour market are reached (volume effects) and the supply and intensity of supervision of the existing target group has risen (quality effects). A positive side effect is that, in 80% of the labour market regions, regional collaboration has improved, for instance between municipalities and schools in reintegrating young people at a distance from the labour market.

The EAFRD contributes to this objective through the LEADER programme. Implementation is organised by 20 local action groups (LAGs). On 1 January 2019, over 230 LEADER projects were under way.



## **6. Involvement of Parliament and other stakeholders**

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The central government is not the only party involved in implementing the Europe 2020 strategy and the country-specific recommendations, both of which are described in this NRP. Social partners, local and regional authorities and non-governmental organisations also play an important role in shaping and implementing policy. In addition, consultations are held with the social partners. It is unique in Europe to consult the social partners on the contents of this document. Nevertheless, the contents and presentation of this document remain the responsibility of the government. Moreover, the social partners have produced their own document to explain how they have contributed to the Europe 2020 targets.

The government attaches great importance to having a broad support base for the Dutch position in the European Semester. It keeps both the House of Representatives and the Senate informed with regard to the various stages and steps within the European Semester. After the proposals for the most recent country-specific recommendations were issued in May 2018, both the House of Representatives and the Senate were informed of the government's response to the proposed recommendations. Following the publication of the Annual Growth Survey and the Alert Mechanism Report in November 2018, which launched the 2019 European Semester, both the House of Representatives and the Senate were informed of the government's view of these analyses. The House of Representatives and the Senate have had opportunities to discuss the contents of these documents with the government prior to various Council meetings (both verbally and in writing).

This National Reform Programme will be submitted to both the House of Representatives and the Senate before being submitted to the Commission. This will provide an opportunity to debate the discussed measures and reforms at a national level. As in previous years, both the House of Representatives and the Senate will be informed about the country-specific recommendations that the Commission will propose for the Netherlands as part of the 2018 European Semester.

## Appendix A: Other tables

**Table 12.** Qualitative characteristics of measures aimed at country-specific recommendation (CSR) 1

CSR 1: Fiscal policy, research & development and the housing market		Description of key measures and how they relate to the country-specific recommendations				Fiscal effects	Qualitative effects
		Description of the measure	Statutory basis	Progress made in the last 12 months	Steps still to be taken		
While respecting the medium-term objective, use fiscal and structural policies to raise public and private investment in research, development and innovation.	Fiscal policy	The coalition agreement will lead to a net reduction of the tax burden that will gradually increase to €6.5 billion by 2021 and additional expenditures that will gradually increase to €7.9 billion by 2021.	Central government budget	Many of the tax measures in the coalition agreement have been incorporated into the Tax Plan 2019. On the expenditure side, many measures have been incorporated into the ministerial budgets.	Other measures will be incorporated into legislation and budgets in the years ahead.	The CPB projects a structural surplus of 0.6% in the Central Economic Plan, which means that the Netherlands complies with the MTO.	Supports domestic demand and will lead to a lower tax burden on labour.
Repurposing government expenditure to support R&I investment	Investments	Structural investments totalling €400 million for fundamental and applied research and two non-recurring amounts of €50 million, in 2018 and 2019 respectively, for research infrastructure.	Central government budget	The government informed the House of Representatives by letter of the allocation of the first tranches of the expenditure boosts for fundamental and applied research.		Structural expenditure boosts of €400 million.	More research and innovation in the Netherlands with an impact on excellence in science, technology development and absorption, innovation capacity and competitiveness, productivity growth and solutions to societal challenges.
Taking measures to reduce the remaining housing market distortions and the household debt bias, mainly by reducing mortgage interest deductibility.	Reducing mortgage interest deductibility for new and existing cases.	The maximum deduction rate will be reduced by 0.5 percentage points per year.	Housing Market Measures 2014 II Act ( <i>Wet maatregelen woningmarkt 2014 II</i> )	With effect from 1 January 2019, the maximum deduction rate is 49.0%.	N/A	Structural revenues of €0.77 billion.	
	Acceleration of the reduction of mortgage interest deductibility.	The maximum deduction rate in the highest bracket will be reduced by 3 percentage points per	Amendment of the Income Tax Act 2001 ( <i>Wet inkomstenbelasting 2001</i> )	N/A	Four annual steps of 3 percentage points until approximately 37%, from 2020 to year-end 2023.	Considerable acceleration of the structural revenue from the above measure. Plus €53	Reduction of housing market distortions, reduction of the mortgage debt bias, more effective tax

		year from 2020, so that the basic rate of around 37% will be achieved by 2023.				million in additional annual structural revenue from 2023.	treatment of home ownership.
	Phasing out the Hillen scheme (deduction for no or low home mortgage debt).	The Hillen scheme will be phased out in 30 equal annual steps from 2019.	Amendment of the Income Tax Act 2001 ( <i>Wet inkomstenbelasting 2001</i> ) entailing the gradual phase-out of the deduction for no or low home mortgage debt.	The first annual step was implemented on 1 January 2019.	30 equal annual steps of 3 1/3 percentage points.	Structural revenues of €1.1 billion.	Improvement of the public finances, simplification of the regulations and the creation of a more efficient tax system.
	Transformation Facility	The Transformation Facility offers loans to facilitate pre-investments in transformation locations. The facility will be supplemented with co-financing from other parties.	N/A	The Transformation Facility was launched in early 2019.	N/A	A subsidy provision of €38 million.	Expansion of the housing supply by facilitating the redevelopment of vacant or underutilised industrial sites in inner-city locations.
	Expanding the mid-priced rental segment.	Adjusting the market test for housing associations.  Providing clarification in the Housing Act ( <i>Huisvestingswet</i> ) so that mid-priced rental homes can be allocated to certain target groups in the event of scarcity.	The Mid-priced Rental Segment Measures Act ( <i>Wet Maatregelen middenhuur</i> ).	The bill has been submitted to the House of Representatives.	Parliamentary debate on the Mid-priced Rental Segment Measures Bill ( <i>Wetsvoorstel Maatregelen middenhuur</i> ).	N/A	Increase in the supply of homes in the mid-priced rental segment.

**Table 13.** Qualitative characteristics of measures aimed at country-specific recommendation (CSR) 2

<b>CSR 2: Labour market and pensions</b>		<b>Description of key measures and how they relate to the country-specific recommendations</b>			<b>Fiscal effects</b>	<b>Qualitative effects</b>	
		Description of the measure	Statutory basis	Progress made in the last 12 months	Steps still to be taken		
Reducing the incentives to use temporary contracts and self-employed persons without employees, while promoting adequate social protection for the self-employed, and tackle bogus self-employment. Creating conditions to promote higher wage growth, respecting the role of the social partners. Ensuring that the second pillar of the pension system is more transparent, fairer on an intergenerational basis and more resilient to shocks.	Better balance between permanent and flex workers	<ul style="list-style-type: none"> <li>- introduction of a cumulative ground in dismissal law;</li> <li>- more balance in the transition payment;</li> <li>- temporary contracts for temporary work;</li> <li>- focusing payroll services and zero-hours contracts on their original purpose;</li> <li>- differentiation of the unemployment insurance (<i>Werkloosheidswet</i>, WW) contribution according to contract type;</li> <li>- easing the obligations regarding compulsory sick pay.</li> </ul>	The government has clustered the package of labour market measures under the Balanced Labour Market Act ( <i>Wet Arbeidsmarkt in Balans</i> ). The entry into force date is scheduled for 1 January 2020.	The Balanced Labour Market Bill was submitted to the House of Representatives on 7 November 2018. See also the letter on "the continued payment of wages in the event of illness" of 20 December 2018 (Parliamentary Paper 29 544, No 873).	See "progress made in the last 12 months".	N/A	Reducing the gap between permanent contracts and flexible working
	Self-employed persons without employees	<ul style="list-style-type: none"> <li>- introducing a minimum rate for the lower end of the market;</li> <li>- more freedom for the top end of the market;</li> <li>- introducing a client statement;</li> <li>- examining how the percentage of self-employed persons with an incapacity for work insurance can be increased;</li> <li>- reducing the self-employed deduction</li> </ul>	The target entry into force date of the specific measures is 1 January 2021. The government considers it extremely important to involve the social partners and stakeholders in elaborating this concretely.	See the letter on "Progress on elaborating the measures for self-employment" of 26 November 2018 (Parliamentary Paper 31 311, No 212).	See "progress made in the last 12 months".	N/A	Certainty for genuine self-employed persons and their clients and preventing bogus self-employment, especially at the lower end of the market.

		in steps.					
	Pension system	<ul style="list-style-type: none"> <li>- developing legislation for the abolition of the average pension contribution system;</li> <li>- making the Premium Schemes (Improvements) Act (<i>Wet verbeterde premieregeling</i>) more accessible and more attractive;</li> <li>- more customisation in the investment policy;</li> <li>- facilitating the conversion of existing agreements into a pension contract with personal pension capital;</li> <li>- facilitating a lump sum payment;</li> <li>- communication on personal pension capital;</li> <li>- widening the scope of the pension system;</li> <li>- improvements for surviving dependants;</li> <li>- appointing members to the Parameters Committee.</li> </ul>	The government will work on a number of steps in the coming months aimed at creating a more robust and more personalised pension system. The intention is to submit a bill proposing a lump sum payment to the House of Representatives in the fourth quarter of 2019.	See the Letter to Parliament on the "Reform of the Pension System" of 1 February 2019.	See the Letter to Parliament on the "Reform of the Pension System" of 1 February 2019.	N/A	A reformed pension system that addresses the vulnerabilities in the current system while retaining the strong elements (obligatory, collective implementation, risk sharing and tax relief).

**Table 14.** Overview of the most important new measures in response to the Europe 2020 strategy

EU headline targets of the Europe 2020 strategy	Most important new measures for the next 12 months	Relationship to the Europe 2020 Strategy	Expected impact of the measures (qualitative/quantitative)
Employment	<ul style="list-style-type: none"> <li>To make work pay, the income tax rate will be adjusted.</li> <li>The government will increase the childcare allowance and the child-related budget to further support parents.</li> <li>The government will strengthen services for job seekers and employers to help more people find work based on the Work Prospects Action Plan, a supplementary budget for personalised services by the Employee Insurance Agency (UWV) and other measures.</li> <li>The government will address labour market discrimination and will undertake efforts to improve the position of Dutch citizens with a migration background through the "Further Integration in the Labour Market" (<i>Verdere Integratie op de Arbeidsmarkt</i>) programme.</li> </ul>	Increasing labour force participation	Stimulating both supply and demand for labour based on a combination of measures is expected to have a favourable effect on employment.
Research and innovation	<ul style="list-style-type: none"> <li>€200 million will gradually be made available for fundamental research on a structural basis by 2020.</li> <li>€200 million has also been made available for applied research. (See the Letter to Parliament "<i>Towards a mission-oriented innovation policy with impact</i>" (No 33 009-63) and the Letter to Parliament "<i>Elaboration of Research Investments and Science Policy</i>" (No 29 338-158)).</li> </ul>	Contributes not only to improving the climate for research and innovation, but also to fostering innovation aimed at addressing social challenges.	More investments in research and innovation.
Sustainable energy and climate.	<ul style="list-style-type: none"> <li>The government aims to set out an ambitious Climate Agreement for 2030 and 2050. In addition, a Climate Act is being drafted, aimed primarily at monitoring the reduction of CO<sub>2</sub>.</li> </ul>	None: the agreement relates to new policy for the period after 2020. Until that time, the government will fully implement the Energy Agreement.	The new Agreement and the Climate Act will have a clear signalling effect. Some measures in the Agreement that will be concluded in 2020 may already have an initial effect on the reduction of CO <sub>2</sub> .
Education	<ul style="list-style-type: none"> <li>implementation of the Strategic Agenda for Higher Education and Research;</li> <li>retention of successful elements from the previous approach to tackling early school-leaving. The approach largely concerns the existing target group, with a focus on young people in a vulnerable position and young people who have dropped out of school previously.</li> </ul>	Contributes to keeping the percentage of tertiary graduates stable at over 40% and further reducing the total group of early school-leavers.	<ul style="list-style-type: none"> <li>increasing the quality and accessibility of higher education and fostering talent development and diversity within higher education as well as the connection between higher education and society;</li> <li>further improving and embedding results of policy measures in the area of early school-leaving. Coherent approach to young people in a vulnerable position</li> </ul>
Social inclusion	<p>Key measures:</p> <ul style="list-style-type: none"> <li>an additional €100 million per year for child poverty (from</li> </ul>	The measures will help reduce poverty and social exclusion.	<ul style="list-style-type: none"> <li>Working – and working more – pays.</li> <li>A comprehensive approach to tackling</li> </ul>

	<p>2017);</p> <ul style="list-style-type: none"> <li>• temporary additional funds to combat poverty and debt, specifically among children (a total of €80 million for the period 2018–2020);</li> <li>• a financial boost of €4 million for the four collaborative poverty alleviation organisations;</li> <li>• increase in benefits (child-related budget supplement, childcare benefit);</li> <li>• financial incentives for employers to hire people;</li> <li>• offering better protection against bogus self-employment schemes;</li> <li>• more intensive guidance for specific groups of unemployed people;</li> <li>• enabling experimentation within the Participation Act;</li> <li>• City Deals – solutions for integrated customisation within the social domain;</li> <li>• agreements with municipalities to reduce the poverty gap;</li> <li>• comprehensive approach to debt reduction;</li> <li>• supporting municipalities in implementing policy measures aimed at poverty and debt reduction.</li> </ul>		<p>poverty and debt will be implemented for the purpose of more effective, efficient and sustainable prevention.</p> <ul style="list-style-type: none"> <li>• Specific investments will be made regarding child poverty to prevent social exclusion and future disadvantage.</li> <li>• Collaboration between public and private parties will be strengthened to reach target groups more comprehensively and effectively.</li> </ul>
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